



ROYAL BANK
OF CANADA

AR56

staying focused

1998 Annual Report

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Our vision is to be Canada's premier financial services provider, with committed people working as a team to create customer and shareholder value.

Our focus is on improving performance in each of our businesses to achieve consistent and superior returns for our shareholders.

Our strategic priorities

are to grow and diversify revenues, improve efficiency, maintain a high-quality risk profile, effectively manage the balance sheet and capital, and provide opportunities for capable, committed employees.

for you



Profile Royal Bank is Canada's largest financial institution as measured by market capitalization, revenues and net income. We have leading positions in most Canadian financial services markets and operations in 35 other countries. We serve nearly 10 million individual and business customers around the world. **In Canada**, we have leading market shares in residential mortgages, personal loans and deposits, and business loans. We are Canada's largest money manager and the second largest provider of mutual funds (first among bank-owned fund companies). Royal Bank owns the largest and most profitable investment dealer, RBC Dominion Securities, the second largest discount broker, Royal Bank Action Direct, and is a significant provider of creditor life and disability, individual life and travel insurance. Our domestic delivery network includes more than 1,400 branches, 4,200 automated banking machines, 570 self-service account updaters, and 77,000 proprietary point of sale merchant terminals. With 1.7 million customers, Royal Direct, our alternative delivery channel provider, is among the world's largest such providers, giving clients access to services via telephone, personal computer and the internet.

Internationally, we provide corporate and investment banking, trade finance, correspondent banking, treasury and securities custody services to business customers. The bank also has a retail network in the Caribbean and substantial global private banking operations. Our international network includes 106 offices in 35 countries.



Milestones › On January 23, Royal Bank and Bank of Montreal announced a proposed merger of equals (details, pg. 70). Subsequent to year end, on December 14, Finance Minister Paul Martin announced that the proposed merger would not be allowed. In light of this announcement, on December 15, Royal Bank and Bank of Montreal terminated their agreement to merge. › Named Canada's most respected corporation for the second time in four years in the annual survey of The Globe and Mail's Report on Business Magazine. › Ranked first in North America for quality of internet banking services by the U.K.-based Lafferty Group.

focus on 1998

Personal and commercial banking: for individual customers

› In October, completed acquisition of Atlanta-based Security First Network Bank (SFNB), *The World's First Internet Bank™*, and an interest in Security First Technologies, a web-banking software development company. In addition to providing customers with service via the internet, telephone and customer representatives around the clock, SFNB offers ATM access and debit/credit card platforms.

› In April, acquired the Canadian life, health, disability and travel insurance businesses of Nebraska-based Mutual of Omaha companies, with annual premiums of over \$120 million.

› In June, opened Canadian call centre with 300 employees in Winnipeg. Today, with call centres in Manitoba, Ontario, Quebec and New Brunswick, Royal Bank has 1,800 employees providing 24-hour service to some 1.7 million telephone and PC banking clients across rural and urban Canada. › In June, RBC Insurance launched a group life and health plan specifically designed for small business, the first such product offered directly by a bank-owned insurance company.

› In July, RBC Insurance began offering home and auto insurance products in Ontario via direct mail and telephone sales. The goal is to provide these products across Canada by the end of 2000.





Personal and commercial banking: for business customers

- › In February, launched *Connect@work*TM, a one-stop internet package through a strategic alliance with AT&T Canada.
- › In June, launched a simplified new business deposit opening process, effectively profiling a complete array of deposit, loan and cash management product and service choices.
- › In October, launched a full range of financing options up to \$100,000 for small business customers through a one-page application accessible by phone, fax, mail, internet, in person, or an account manager.



Wealth management: › Royal Mutual Funds launched 11 new funds – in November 1997, three *Royal Strategic Index Funds*TM managed by James O'Shaughnessy, author of "What Works on Wall Street"; in April, two new funds, *Royal Balanced Growth Fund*TM and *Royal Canadian Value Fund*TM; and in October, six new index funds with the lowest all-inclusive fees in Canada.

- › In November 1997, Royal Mutual Funds acquired a 40% stake in Synergy Asset Management, a new mutual fund company offering an array of load funds.
- › In January, discount brokerage *Royal Bank Action Direct* introduced the internet trading service *NetAction*TM providing full portfolio access and allowing investors to place equity, option and mutual fund orders at discount prices. The service also provides up-to-date order status, and real-time stock quotes from North American exchanges. Over 875 Canadian mutual funds are also available.



Corporate and investment banking:

› In January, RBC Dominion Securities entered into an agreement to acquire 25% of Hartley Poynton Limited, Australia's second largest independent investment dealer. The acquisition expands RBC DS global mining capabilities, complementing its existing operations in North America and Europe and a similar strategic alliance with Board of Executors Limited (BOE) of South Africa.

- › For the third year in a row, Royal Mutual Funds was the top-selling fund company during the January-February RRSP season. Three funds – Balanced, Bond and Dividend – were among the top 10 choices of Canadian investors, from more than 1,000 funds.
- › In March, Royal Bank was named world's Best Offshore Banking Group by Financial Times of London, based on its extensive range of financial services for clients, its global network, level of service, and effective communications.
- › In October, completed the acquisition of the North American businesses of Credit Suisse Private Banking North America, with approximately \$1 billion in client assets.

› Royal Bank announced an agreement with New York-based IntraLinks to offer loan syndication services to clients and investors through the internet. Royal Bank's Toronto, New York and London-based syndications groups now have access to the internet for the secure distribution of large loan transactions within countries and across international borders.

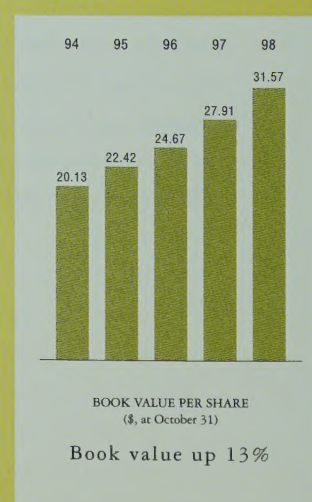
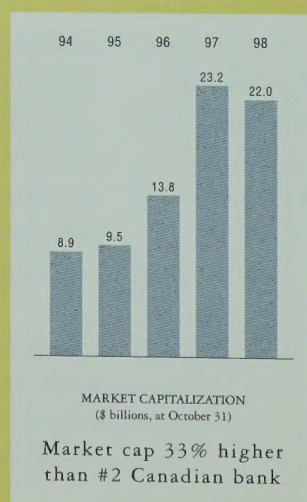
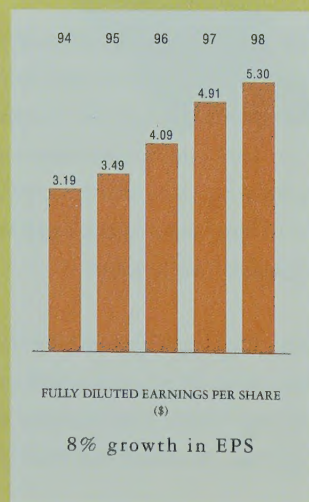
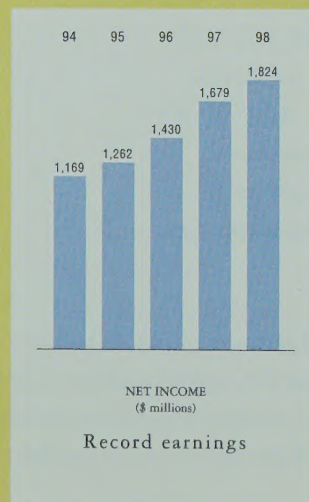
› In March, acquired from Société Générale the bond business of Hambros Bank Limited which, in addition to its main location in London, includes offices in Sydney, Johannesburg, Toronto and Tokyo. This resulted in a stronger trading and distribution presence internationally and expanded Eurobond and government bond capabilities.

	% GROWTH 1998/1997	1998	1997	1996	1995	1994
Earnings (For the year ended October 31)						
Gross revenues (\$ millions) (1).....	8%	\$10,086	\$9,311	\$7,941	\$7,317	\$7,391
Provision for credit losses (\$ millions).....	51	575	380	440	580	820
Non-interest expenses (\$ millions).....	6	6,399	6,053	5,112	4,657	4,661
Net income (\$ millions).....	9	1,824	1,679	1,430	1,262	1,169
Return on assets.....	—	.70%	.70%	.70%	.69%	.70%
Return on common shareholders' equity.....	(90) b.p.	18.4%	19.3%	17.6%	16.6%	16.8%
Goodwill-adjusted return on common shareholders' equity (2).....	(120) b.p.	20.4%	21.6%	18.9%	18.1%	18.9%
Balance sheet (As at October 31) (\$ millions)						
Total assets.....	12%	\$274,399	\$244,774	\$231,498	\$196,030	\$173,079
Loans.....	6	165,254	156,267	135,791	119,577	115,386
Deposits.....	4	180,005	173,229	161,817	143,491	135,815
Subordinated debentures.....	(3)	4,087	4,227	3,602	3,528	3,481
Preferred shares.....	20	2,144	1,784	1,752	1,990	2,266
Common shareholders' equity.....	13	9,748	8,606	7,662	7,042	6,323
Capital ratios (As at October 31)						
Common equity to risk-adjusted assets.....	40 b.p.	6.2%	5.8%	6.0%	5.8%	5.3%
Tier 1 capital ratio.....	60 b.p.	7.4	6.8	7.0	6.9	6.4
Total capital ratio.....	50 b.p.	10.5	10.0	9.4	9.8	9.6
Common share information (For the year ended October 31)						
Shares outstanding (thousands)						
— end of year.....	—%	308,791	308,335	310,529	314,155	314,155
— average.....	—	308,662	308,906	314,121	314,155	314,155
— average fully diluted.....	1	322,020	319,065	314,121	314,155	314,155
Earnings per share						
— basic.....	9	\$ 5.44	\$ 5.01	\$ 4.09	\$ 3.49	\$ 3.19
— fully diluted.....	8	5.30	4.91	4.09	3.49	3.19
— goodwill-adjusted basic (2).....	8	5.64	5.20	4.21	3.62	3.34
Dividends per share.....	16	1.76	1.52	1.33	1.18	1.16
Share price — High.....	21	92.20	76.45	44.40	31.38	31.88
— Low.....	31	57.50	44.00	29.75	25.88	25.13
— Close — October 31.....	(6)	71.10	75.35	44.30	30.13	28.38
Book value per share — October 31.....	13	31.57	27.91	24.67	22.42	20.13
Market capitalization (\$ billions).....	(5)	22.0	23.2	13.8	9.5	8.9
Number of: (As at October 31)						
Employees — Total.....	3%	60,035	58,133	54,728	55,721	55,987
Full-time equivalent.....	5	53,468	50,719	48,205	49,011	49,208
Service delivery units						
Domestic.....	(2)	1,422	1,453	1,493	1,577	1,596
International (3).....	1	106	105	103	105	97
Automated banking machines.....	(2)	1,528	1,558	1,596	1,682	1,693
	2	4,317	4,248	4,215	4,079	3,948

(1) Taxable equivalent net interest income and other income.

(2) Goodwill-adjusted return on common shareholders' equity and goodwill-adjusted basic earnings per share are computed by adding back goodwill amortization charged to net income in each year and reducing average common shareholders' equity by the unamortized goodwill.

(3) International service delivery units include branches, representative offices, agencies and subsidiaries.



Dear fellow investor,

This report documents a year of considerable accomplishment for Royal Bank. In an economic and financial market environment marked by uncertainty and volatility, and unlike several global banks that recorded large losses on their trading or emerging market exposures, Royal Bank successfully stayed the course.

By focusing on our strategic priorities, high-return personal and commercial banking and wealth management businesses, and the needs of our key stakeholders, we generated record results for the fifth consecutive year.

We compare our performance against specific objectives for the year, as well as against our medium-term (3-5 year) goals. Our objectives for the year relate to six key areas – return to shareholders (or valuation), earnings growth, revenue growth, efficiency improvement, portfolio quality, and balance sheet and capital management. By staying focused on the last four (our strategic priorities, mentioned on page 1), we can generate consistent returns for our shareholders.

Page 7 shows our 1998 objectives in all six areas, our performance compared to them, and our objectives for 1999. These objectives do not factor in the impact of the proposed merger with Bank of Montreal.



staying focused

on our priorities
our high-return businesses
our stakeholders

Return to shareholders

Six months into the fiscal year, in April, our share price hit an all-time high of \$92.20, up 22% from October 31, 1997. This followed on the heels of share price appreciation of 70% in 1997 (the highest in the industry) and 47% in 1996. However, at year end, our share price stood at \$71.10, down 5.6% from a year earlier, amid a sharp decline in equity markets and evidence of weakening economic growth in Canada. Although our drop was less than the declines of 6.3% for the TSE Banks and Trusts Index and 9.3% for the

TSE 300, our total return was not in the first quartile of the return for the TSE Banks and Trusts Index.

However, we started the year with the highest valuation and, similarly, at October 31, 1998, we had the highest share price relative to book value of 2.3x (based on third quarter book value) and the highest price/earnings multiples on both 1998 and 1999 earnings (based on analysts' average estimates). With the highest valued shares, it is difficult, if not impossible, to keep recording the largest share price increases. Our objective for 1999

is to maintain our valuation levels in the top quartile of the TSE Banks and Trusts Index.

We raised our common share dividend twice during the year, by 16% in total over 1997. The dividend payout ratio was 32% this year, up from 30% in 1997.

Earnings growth

Growth in fully diluted earnings per share of 8% fell somewhat short of our 10-15% target for 1998. We had not anticipated as severe a market correction as we experienced this year. For 1999, our targeted growth rate is 4-7%, based on expectations of slower economic

growth next year of around 2%, little change in interest rates and no significant weakening of capital markets from the level in early December 1998.

Our 18.4% ROE was within the 17-19% medium-term goal disclosed in the 1997 annual report. Although we have one of the highest ROEs in the industry in Canada, we have now widened our 3-5 year goal range to 17-20% as we believe in raising our sights and want to keep our ROE comparable to strong North American performers.



Staying focused on our strategic priorities

Revenue growth and diversification

With revenue growth of 8%, we met our 5-10% objective for 1998. Loan growth was strong, as were fees from wealth management operations. However, margins narrowed once again. With a slowing economy and expectations of more moderate loan growth in 1999, we are targeting revenue growth in the mid-single digits.

Efficiency improvement We lowered our efficiency ratio by 160 basis points from last year to 63.4%. This fell slightly short of our 200 basis point improvement target, as we couldn't immediately cut

expenses to match the revenue decline in the fourth quarter.

Our objective for 1999 is to continue to grow expenses at a lower rate than revenues, which should further improve our efficiency ratio. It is critical that we do so in a low revenue growth environment. In fact, our number one priority in 1999 will be cost control.

Our 3-5 year efficiency goal is 59.5% and each of our business segments has aggressive targets for efficiency enhancement, shown on page 32. Efficiency is discussed in more detail on pages 39-40.

Strong credit quality Although the provision for credit losses ratio was somewhat above the objective for 1998, it remained below our medium-term goal of .35%-.45%. We added another \$100 million to our general provision this year, bringing it to \$850 million. For 1999, our objective is to remain in the lower half of that target range, that is within .35%-.40%.

Net impaired loans continued to fall this year. We also reduced our Asian exposure by 30% compared to a year ago, and took higher related provisions that now result in a coverage ratio of 82%.

Objective 1: Provide a total return to common shareholders that is in the top quartile of the return for the TSE Banks and Trusts Index.

Performance: -3.3%, in third quartile.

Objective 2: Grow earnings per share by 10-15%.

Performance: Fully diluted earnings per share up 8%.

98 performance versus objectives

Objective 4: Improve the efficiency ratio by 200 basis points to 63.0%.

Performance: Efficiency ratio improved by 160 basis points to 63.4%.

Objective 5: Achieve a ratio of provision for credit losses to average loans and bankers' acceptances close to 1997's level of .25%.

Performance: .32%

Objective 6: Grow risk-adjusted assets at a pace that will permit us to attain, by the first half of 1998, capital ratio targets of 6% for common equity to risk-adjusted assets and 7% for the Tier 1 capital ratio.

Performance: Risk-adjusted assets growth held at 6% in 1998. Exceeded capital ratio targets by first half of 1998 and continued to do so at October 31, 1998, with common equity to risk-adjusted assets ratio of 6.2% and Tier 1 capital ratio of 7.4%.

Objective 3: Grow total revenues by 5-10% and enhance market shares in traditional banking products.

Performance: Revenues increased 8% from a year ago. Market shares* (compared to all financial institutions in Canada) increased to 14.9% from 14.3% for residential mortgages, to 16.0% from 15.7% for personal loans, but decreased to 16.1% from 16.4% for personal deposits.

performance
versus
other targets

Target: Return on common shareholders' equity of 17-19%.

Performance: 18.4%.

Target: Dividend payout ratio of 30-40%.

Performance: 32%.

Objective 1: Valuation

Maintain valuation levels (share price/book value and share price/earnings) that are in the top quartile of the TSE Banks and Trusts Index.

Objective 2: Earnings growth

Grow fully diluted earnings per share by 4-7%.

99 objectives

Objective 5: Portfolio quality

Achieve a ratio of specific provisions for credit losses to average loans and bankers' acceptances of .35%-.40%

Objective 6: Balance sheet and capital management

Maintain strong capital ratios through careful growth in risk-adjusted assets.

Objective 3: Revenue growth

Achieve revenue growth in the mid-single digits and maintain or enhance market shares in personal banking products and mutual funds.

Objective 4: Expense growth

Contain expense growth to a rate lower than the rate of revenue growth.

* Market share numbers reflect new information from the Bank of Canada that now includes securitized uninsured mortgage and personal credit balances. 1997 comparable market share numbers have been restated to reflect this change.

Strong trading revenues even under the extremely volatile conditions of the fourth quarter reflected our avoidance of large proprietary trading positions and limited involvement in exotic currencies and structured derivative transactions, consistent with our cautious approach to risk. Our hedge fund portfolio remains small as well.

Maintaining strong credit quality will be our number two priority for 1999, following tight cost control.

Balance sheet and capital management

We exceeded our capital ratio targets for 1998 through controlled growth in risk-adjusted assets, strong internal capital generation, and debenture and preferred share issuances. We intend to maintain strong capital ratios in 1999. We have raised our 3-5 year capital ratio goals by 100-200 basis points, as shown on page 32, in order to compare more favourably with well-capitalized North American banks over the medium term.

Staying focused on our high-return businesses

We are staying focused as well on our high-return, high-P/E multiple businesses – the personal and commercial banking and wealth management segments. These recorded ROEs of 30% and 48% respectively, grew core earnings by 12% and 7% respectively, and together accounted for 76% of our total earnings this year. Wealth management's goal is to account for 25% of total earnings in five years, up from the current 16%. This would have very positive implications for our overall ROE.

We've been growing the businesses through an active referral program, by putting different units of the group under one roof, through aggressive product launches, a heightened sales focus and through acquisitions. The three small acquisitions in these two segments this year are mentioned on page 15.

We also reorganized the wealth management group recently for greater synergies between the private client brokerage business and the other businesses in the segment.

We have recently reorganized the corporate and investment banking group as well, as described on page 27 under "strategies". As of November 1, 1998, all of the businesses serving corporate, government and institutional clients will co-ordinate efforts under the RBC Dominion Securities operating structure. There is significant opportunity for enhancing returns through integrated financial solutions for clients and careful management of credit.



Staying focused on our stakeholders

To meet our obligations to all our stakeholders, we remained focused on meeting or exceeding their needs.

For our shareholders, we remain focused on maintaining above-average valuations, generating superior returns, growing high-return businesses, making acquisitions that add shareholder value and providing solid dividends.

For our customers, we are focused on providing innovative products and solutions that represent good value,

and making our customers feel valued.

For our 60,000 employees, we are focused on providing a learning environment that is critical for achieving the innovation and renewal needed to thrive in a rapidly changing environment. Our level of employee commitment compares favourably with top North American companies. Our employees are dedicated to providing dependable and caring service to our 10 million clients. Their openness to change is demonstrated in

the strong support the proposed merger with Bank of Montreal has received from the majority of our employees.

For our communities, we are focused on supporting them in a variety of ways, as an employer, taxpayer, corporate donor and substantial purchaser of goods and services. Further information on communities, employees and customers is provided on page 100.

looking ahead

We intend to generate sound returns for you, our owners, with our strong shareholder orientation, clear objectives and solid fundamentals.



John E. Cleghorn
Chairman & Chief Executive Officer



Financial sector developments

In past Annual Reports we have emphasized the importance of the broad forces of technological change, globalization, intensifying competition and industry consolidation which are shaping the financial services landscape, both in Canada and abroad. In response to these forces of change, in September, the Task Force on the Future of Canadian Financial Services, chaired by Harold MacKay, issued its report (the "MacKay Report") on the future of the Canadian financial services industry – the most thorough review of all of the issues facing the industry since the Porter Commission Report three decades ago. This report was followed by Parliamentary hearings and reports by both the Senate and House Committees responsible for financial sector policy. Both Parliamentary Committee reports have, in large measure, supported the recommendations of the MacKay Report. That report highlighted the need for a legislative and regulatory framework that enables the financial industry to flexibly adapt to the unabating forces of technological change, globalization and consolidation.

Technology

The pace of technological change continues to accelerate at a rapid pace. The ability to develop and access leading edge technology is a key success factor for any financial institution.

As the MacKay Report noted:

For established providers, technology is a double-edged sword. While it offers new opportunities to serve consumers better, it can give advantage to new competitors and threaten existing franchises. This is especially true for institutions with legacy technology and distribution systems requiring complex and costly re-engineering or replacement.

Globalization

Large corporations have for some time been able to tap foreign or domestic sources for their financing needs. New technology, coupled with consumer acceptance of new delivery channels, mean that the services of foreign providers are available to mid-market and even retail consumers. The branchless delivery of small business loans being introduced by new foreign competitors, and the arrival of American-based credit card providers, present increasing options for Canadian consumers. They also present challenges for established Canadian players who operate full service branch networks and also provide all other alternative delivery channels.

The move towards freer trade in financial services is also changing the competitive landscape. WTO, NAFTA, and the Canada-US Free Trade Agreement have been implemented, and there are initiatives on the horizon to further liberalize trade in financial services.

Industry Consolidation

In other areas of the world, and even in other segments of financial services in Canada, these changes are driving industry consolidation.

1998 saw combinations among financial institutions of unprecedented scale, both in-market, cross-pillar, and cross-border. BankAmerica-NationsBank and Banc One-First Chicago NBD announced mergers. The creation of Citigroup through the merger of Citicorp and Travelers Group was followed by the announcement of Deutsche Bank's intended acquisition of Bankers Trust, surpassing the Citigroup transaction to create

the largest bank in the world, with assets in excess of U.S.\$825 billion. In Canada, Midland Walwyn was acquired by Merrill Lynch, one of the world's largest brokerage firms, and Great-West Life completed its acquisition of London Life.

Financial Services Reform

One of the principal themes running through the MacKay Report was the desirability of facilitating competition, from both foreign and domestic providers.

In this regard, the MacKay Report made recommendations that would further intensify competition in Canada. These included further easing foreign entry, broadening access to the payments system and encouraging new domestic entrants in the deposit taking sector.

The MacKay Report also made a number of important recommendations to enhance consumer protection, broaden access to capital for small businesses, and improve the supervisory system.

Royal Bank supports the MacKay Report recommendations, including initiatives to further increase competition in Canada. However, we need the necessary flexibility to adapt to the challenges created by change, including the flexibility to pursue mergers as a legitimate business strategy.

Proposed Merger

In this context, we had proposed a merger with the Bank of Montreal. Despite various reports prepared for the government, including the MacKay Report, which recognized mergers as a legitimate business strategy, on December 14, 1998, Finance Minister Paul Martin announced that the proposed merger would not be allowed. In light of the Finance Minister's announcement, on December 15, 1998, Royal Bank and Bank of Montreal terminated their agreement to merge. The Minister has further indicated that a new policy framework governing the financial services sector, including a review process for mergers between major banks, will be brought forward. The government will not consider any merger among major banks until the new policy framework is in place. We will urge government to ensure that the policy framework provides flexibility to the financial services sector to adapt to change, to meet the changing needs of our customers cost-effectively, and to serve the national interest.



The BEARS

1 | How are you responding to the slowdown in economic growth and weakness in capital markets?

By realigning our strategic priorities – placing cost control and risk management above revenue growth. We want expenses to grow more slowly than revenues next year. Our businesses, particularly those that are capital-market related (brokerage, investment banking, trading, mutual funds and investment management), are controlling costs. We've cut capital expenditures and delayed non-critical projects. Should the environment improve, we can increase spending. The reverse is harder to do.

your questions: our answers



Focus on Shareholder Value

2 | In order to enhance shareholder value, what new balance do you plan to strike between dividend increases, share repurchases and acquisitions?

We continue to target a dividend payout ratio of 30-40%. We believe that sustainable, profitable growth is the best route to shareholder value creation, and accordingly announced some acquisitions this year (details, page 15) and the proposed merger with Bank of Montreal. Since the proposed merger has been denied by the Minister of Finance, we will redouble our efforts to develop growth avenues. In the interim, we will examine the appropriateness of common share buybacks, in light of our ongoing objective to build a strong capital position.



MONOLINES

3 | How are you dealing with the recent entry into Canada of foreign competitors?

We're being aggressive with new product development and client retention strategies. These competitors have a cost advantage over us due to their economies of scale, which we hoped to also enjoy with our proposed merger with Bank of Montreal. Since that avenue is no longer open, we are examining all aspects of our cost base to remain competitive and generate good returns for our shareholders.

Emerging MARKETS



4 | What are your outstanding exposures to Asia, Latin America, Russia and hedge funds?

Our earning assets in Asia and Latin America are shown in table 24 on page 55. Including off-balance sheet amounts, our total net outstanding exposures (net of the related allowance for credit losses) at October 31, 1998 were \$7.3 billion in Asia, \$4.0 billion in Latin America and \$54 million in Russia. Net impaired loans in these regions were just \$54 million, \$1 million and \$5 million, respectively, at year end due to the steps we've taken to control risk. First, we deal mostly with top-tier banks and companies, many of them subsidiaries of foreign multinationals or well-known household names. Second, many local companies are exporters who are paid in hard currencies. For example, two-thirds of our Russian exposure is to exporters, with risk mitigated by the receipt of payments from offshore multinational buyers. Third, our exposures have been declining, and will likely continue to do so, as much of them are short term. Fourth, our exposures are largely denominated in U.S. dollars. Finally, we have senior risk officers responsible for those regions, who are working to ensure sound risk management of their portfolios.

Our mark-to-market exposure to hedge funds (after deducting collateral) has fluctuated between U.S.\$5 and U.S.\$10 million from mid-August to October 31, 1998. The exposure is largely in the form of swaps.

5 | Has your international strategy changed following the emerging market weaknesses?

Our international presence is outlined below. Since we had a conservative international business strategy to begin with, very little adjustment has been required. In Asia, following a rigorous review, we have scaled back our corporate and investment banking activities. The bank's exposure to emerging markets in Latin America and Asia is discussed on the previous page.

In the United States, we intend to expand selectively, largely in fee-based businesses like investment management, private banking and specialized insurance products. We will also explore attractive niche opportunities in the personal and commercial banking areas. The acquisition of Atlanta-based Security First Network Bank provides a foundation for expansion. The North American private banking operations of Credit Suisse, also acquired this year, is another example of the type of business opportunity that fits our U.S. strategy well. In corporate and investment banking, profitability targets for each client relationship will be achieved through the prudent allocation of capital, the provision of value-added investment banking solutions and loan portfolio management techniques.

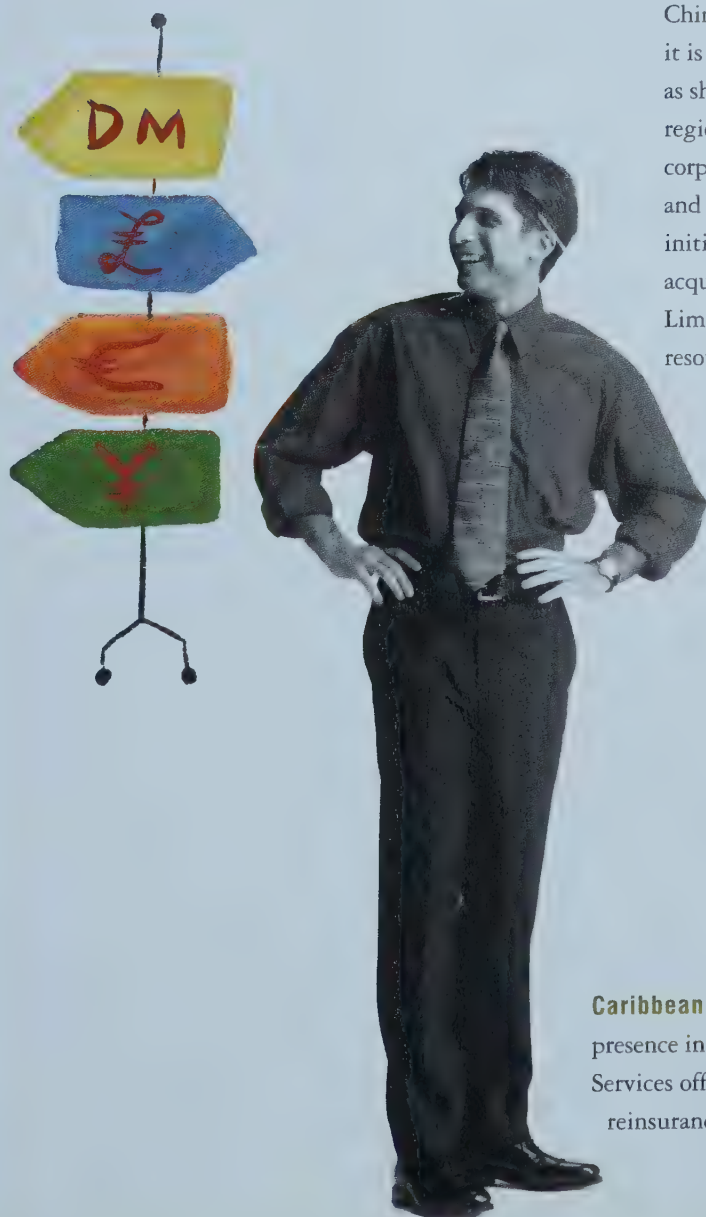
Latin America ▶ From offices in Mexico, Argentina, Chile, Brazil, Colombia, Venezuela and Uruguay, Royal Bank provides services to leading financial institutions and large corporations throughout South and Central America. Services are focused on correspondent banking, trade finance, treasury, multinational banking and global private banking.

Asia Pacific ▶ The bank has a presence in eight markets – Japan, Taiwan, Hong Kong, South Korea, Singapore, China, Thailand and Australia, where it is selectively focused in areas such as short-term financing of inter-regional trade, global private banking, corporate and investment banking and trading. As part of our strategic initiatives in global mining, we acquired 25% of Hartley Poynton Limited, one of the leading Australian resource-based investment dealers.

Europe ▶ Royal Bank has the largest presence in Europe of any Canadian bank. In addition to offices in the U.K., France, Germany, Spain, the Netherlands and Switzerland, the bank operates in South Africa and the U.A.E. Over 9% of the bank's earning assets are located in Europe. Through its wealth management division, the bank provides global private banking, investment management and trust and global custody services. Its corporate and investment banking division provides a range of lending and capital markets services, correspondent banking, treasury and fixed income products and services. During the year, Royal Bank completed the acquisition of the bond business of Hambros Bank Limited. We also acquired a minority interest in BOE Securities, part of a major South African banking group.

Caribbean ▶ Royal Bank has a 100-year tradition and major presence in the Caribbean with 49 units and over 1,000 employees. Services offered include brokerage, global private banking, reinsurance, trust services and retail and commercial banking.

United States ▶ Close to 12% of Royal Bank's \$238 billion of earning assets are located in the U.S., where the bank provides corporate and investment banking, trade finance, treasury and capital market products to U.S. multinational corporations and financial institutions, and subsidiaries of Canadian corporations. Royal Bank ranks in the top 10 in North American commercial paper-backed multi-seller securitization conduits and in the top 20 in loan syndications. Offices are located in New York, Chicago, Los Angeles, Boston, Miami and Houston.



the canadian economy

Canada's economic fundamentals remain solid and are providing a buffer in an environment of weaker global growth prospects, softer commodity prices and heightened risk aversion. That said, however, a number of downside risks exist that could intensify in the period ahead, suggesting continued caution is warranted in these uncertain times.

The Canadian economy is expected to expand by around 3% in 1998, compared to a more robust 3.8% gain in 1997. The slowing reflects the downdraft from weaker international markets, falling commodity prices and volatile equity markets. The downward adjustment to world growth prospects, including some moderation in the pace of U.S. economic growth, suggests export prospects for Canada will weaken in the period ahead. This, coupled with weakness in corporate profits, points to a curtailment of investment spending and hiring which will act to further slow Canadian growth to an expected 2% level in 1999.

The moderation in economic activity will leave the current degree of excess capacity in the economy intact, favouring continued low inflation. Moreover, the disinflationary forces from global markets will also act as a weight on prices, and should lead Canadian inflation to remain below the midpoint of the Bank of Canada's 1-3% target range.

The slower growth pattern alongside low inflation points to continued low interest rates. At the time of writing, three-month treasury bill yields were just below 5% while long-term yields were around the 5.2% mark. We see room for further easing by the Bank of Canada in the year ahead, a view largely priced into markets, suggesting little change in interest rates beyond the very short-term rates.

Alongside downward adjustments to the outlook for global commodity prices, the Canadian dollar remains on the defensive given a still-high economic dependence on commodities. Barring any further weakness in commodity prices, however, low inflation and further progress in reducing debt suggest the Canadian dollar is likely to rebound moderately from its current low level of 65.2 cents U.S. over the forecast horizon.

Caution regarding forward-looking statements

Royal Bank, from time to time, makes written and oral forward-looking statements, including in this Annual Report, in other filings with Canadian regulators or the U.S. Securities and Exchange Commission, in reports to shareholders and in other communications. Such forward-looking statements include, but are not limited to statements regarding the Year 2000 issue, objectives for 1999 and the medium-term,

strategies to achieve those objectives, outlook for the Canadian economy, and commentary on its proposed merger with Bank of Montreal.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other forward-looking statements will not be achieved. Royal Bank cautions readers not to place

undue reliance on these statements as a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, changes in Canadian and/or global economic conditions including fluctuations in currencies, interest rates and inflation, regulatory developments,

technological changes and the effects of competition in the geographic and business areas where the bank operates.

Royal Bank cautions that the foregoing list of important factors is not exhaustive; when relying on forward-looking statements to make decisions with respect to the bank, investors and others should carefully consider the foregoing factors and other uncertainties and events.

How we've grown:

general development of the business

Acquisitions have played a key role in Royal Bank's growth. Deregulation of the financial services industry in the late 1980s provided the bank with the opportunity to initially acquire, and subsequently add to, stakes in the brokerage, trust and insurance businesses. These acquisitions enabled the bank to generate a larger proportion of fee-based income and to transform itself from a bank to a provider of a broad array of financial services. This year, the bank made acquisitions in the insurance, private banking, internet banking and bond trading and distribution businesses. Key acquisitions in the last six years are summarized below:

These acquisitions have contributed to the following trends since 1993:

- › Other income has risen to 49% of total revenues in 1998 from 37% in 1993.
- › Capital market fees have soared 145% to \$1.1 billion from \$456 million five years ago.
- › Fees from investment management and custodial services and from mutual funds now account for 19% of total other income, up from 7% in 1993.

A sharp increase in off-balance sheet assets has generated these higher fees. Assets under management were \$73 billion at October 31, 1998, up 121% from \$33 billion five years ago.

While fee-based businesses have grown significantly, Royal Bank has retained its leading positions in traditional banking businesses. It continues to have the highest market shares in residential mortgages, personal loans and personal deposits.

To support this growth, meet customers' needs for alternative delivery channels and reduce costs, the bank has invested in telephone banking, PC banking, secure internet banking, debit cards and stored-value cards.

ACQUISITION	KEY BENEFITS (1)
Voyageur Insurance Company – 1993	Over \$100 million in annual premiums Canada's largest travel insurance provider Products offered through more than 4,000 travel agencies
Royal Trust – 1993	Canada's largest money manager Highly ranked in global custody Large mutual fund family Strong in global private banking Upscale banking business
Kidder Peabody's equity derivatives team – 1995	Broadens product offering to retail, institutional and corporate clients
Westbury Canadian Life Insurance Company – 1996	\$90 million in annual premiums Strong balance sheet Innovative products
TD Bank and Trust's institutional and pension custody business – 1996	\$47 billion in assets under administration A blue-chip client base Greater economies of scale Incremental revenues
Richardson Greenshields (investment dealer) – 1997	Over \$300 million in revenues \$17 billion in private client assets 580 investment advisors
Montreal Trust's and Scotiabank's institutional and pension custody business – 1997	\$120 billion in assets under administration Strong pension and fund manager client base Greater economies of scale Incremental revenues
Mutual of Omaha's Canadian life, health, disability and travel insurance businesses – 1998	Over \$120 million in annual premiums 100,000 additional policies 500 sales agents Broadens product line
Security First Network Bank – 1998	Technology for fully-functional banking and financial management over the internet Web banking software development Banking license in the U.S.
Hambros Bank's bond business – 1998	Expanded Eurobond and government bond capabilities Stronger international trading and distribution presence
Credit Suisse Private Banking North America – 1998	\$1 billion in client assets Greater economies of scale Incremental revenues Rapid accretion to earnings

(1) At time of acquisition.

Competition As the bank has entered and expanded into new lines of business, its competition has grown to include investment dealers, mutual fund companies, money managers, custody service providers, insurance companies, virtual banks and specialty financial service providers. Key competitive factors include the range and features of financial products, their pricing, distribution and service quality. Competition is intensifying as foreign providers of credit cards, mutual funds, small business loans, consumer finance and investment banking services are increasingly entering Canada.

staying focused

on delivering value to shareholders and 10 million customers



businesses*

personal & commercial banking

- › personal financial services
- › card services
- › business banking
- › insurance

wealth management

- › royal trust
- › royal mutual funds
- › rbc ds – private client division
- › royal bank action direct discount brokerage

corporate & investment banking

- › corporate banking
- › financial institutions & trade
- › rbc ds – institutional division

committees

- asset & liability
- business services
- corporate & investment banking
- group risk
- personal & commercial markets
- risk management
- technology policy
- wealth management

functions

- corporate affairs
- corporate secretary
- corporate treasury
- finance
- human resources
- internal audit
- law
- ombudsman
- operations & service delivery
- payment & settlement services
- real estate
- risk management
- strategic development
- systems & technology

geographies

- atlantic
- quebec
- metro toronto
- ontario
- manitoba
- saskatchewan
- alberta & nwt
- b.c. & yukon
- u.s.a.
- bahamas & cayman
- barbados & caribbean
- latin america
- europa
- asia

group council

- › comprises group office members and the heads of each of the businesses and major geographic and functional units.
- › meets to review the group's performance versus its plan, to communicate group-wide issues and to deal with cross-functional matters.

group office

- › ten-member team led by the chief executive officer and including six vice-chairmen, the chief financial officer, the chief information officer and the chief risk officer.
- › responsible for the group's overall strategic direction, competitive position, market performance, human resource planning, external relations and risk profile.
- › provides strategic direction to operating units.
- › meets weekly.

* Each business segment (e.g. personal & commercial banking) is supported by an operating committee, with a representative from each business, charged with taking a broad view of the entire customer market and developing integrated customer strategies, marketing, sales and operations. Each business unit (e.g. personal financial services) is responsible and accountable for competitive performance and operational excellence in the markets it serves.

We present below the 1998 results for our major business segments, which include the businesses listed on page 16.

results by business segment

personal and commercial banking generated 60% of Royal Bank's 1998 net income, produced a return on equity of 29.7% and derived 25% of its revenues from other income. The segment achieved an efficiency ratio of 61.3%, superior to the bank's overall ratio. Its efficiency ratio goal for the medium term (3-5 years) is 53.6%, which it intends to achieve by growing expenses at a slower pace than revenues.

wealth management generated 16% of the bank's net income and derived close to 85% of its revenues from fee income. The segment's high 48.3% return on equity results from the excellent returns and low capital requirements of its largely off-balance sheet businesses. The high efficiency ratio of 77.7% reflects the nature of the businesses. The 3-5 year efficiency goal is 69.4%.

corporate and investment banking generated 12% of the bank's net income and derived 65% of its revenues from other income. Return on equity was 12.9% while the efficiency ratio was 59.2%. The 3-5 year efficiency target is 55.1%. Enhancing return on equity is a major priority for this segment.

other largely comprises real estate operations, corporate treasury (which manages the bank's market risk position), the systems and operations groups and the discontinued LDC business. In 1998, this segment's 12% contribution to total net income largely originated from the sale of Brady bonds for a one-time pre-tax gain of \$277 million and from the reversal of \$80 million of the country risk provision.

results by business segment

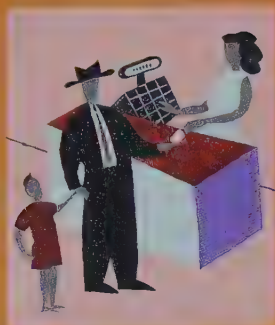
(FOR THE YEAR ENDED OCTOBER 31, 1998) (\$ MILLIONS, TAXABLE EQUIVALENT BASIS)	PERSONAL AND COMMERCIAL BANKING	WEALTH MANAGEMENT	CORPORATE AND INVESTMENT BANKING	OTHER(1)	TOTAL
Net interest income.....	\$4,224	\$ 347	\$ 689	\$(159)	\$ 5,101
Other income.....	1,376	1,828	1,299	482	4,985
Gross revenues.....	5,600	2,175	1,988	323	10,086
Provision for credit losses.....	304	1	385	(115)	575
Non-interest expenses.....	3,433	1,689	1,176	101	6,399
Income taxes.....	755	184	126	110	1,175
Non-controlling interest and taxable equivalent adjustment.....	16	12	73	12	113
Net income.....	\$1,092	\$ 289	\$ 228	\$ 215	\$ 1,824
Net income as a % of total bank net income.....	60%	16%	12%	12%	100%
Return on equity.....	29.7%	48.3%	12.9%	5.7%	18.4%
Efficiency ratio.....	61.3%	77.7%	59.2%	—	63.4%
Average assets.....	\$111,100	\$11,900	\$128,100	\$10,200	\$261,300
Average loans and bankers' acceptances.....	106,300	5,700	67,700	(1,700)	178,000
Average deposits.....	85,400	16,900	72,000	4,400	178,700

(1) The Other segment is comprised mainly of LDC assets, real estate operations, corporate treasury, systems & technology, and operations & service delivery.



personal financial services

home mortgages
car loans
personal loans and lines of credit
student banking and borrowing options
personal chequing and saving accounts
investment and retirement planning services
education savings plans
account and access packages
personal financial information, advice and client seminars
money orders and drafts
foreign exchange and travel related services
anywhere, anytime access through banking machines, pcs, internet and telephone banking



card services

retail *Visa* credit cards – a range of Classic and Premium products
affinity credit cards
CreditLine for small business™ Visa
commercial *Visa* cards for travel & entertainment and purchasing
FirstView proprietary expense management software
client cards with *Interac* debit
Mondex electronic cash card
merchant *Interac* debit, credit card and *Mondex* acceptance services
internet secure electronic transaction (SET) solutions for e-commerce



business banking

business deposits & investments
financing
leasing
cash management
e-commerce
business client card and merchant card services
payroll
telephone banking
pc and internet services
foreign exchange
international trade services
financial advisory services
ViaTech® and *ViaSource®* networks of expertise



insurance

authorized products – through Royal Bank and Royal Trust distribution networks
› group creditor life, disability and job loss insurance
› *Travel HealthProtector®*
› hospitalization benefits
› accidental death insurance
life insurance – through direct response, more than 500 proprietary agents and over 5,000 independent brokers
› individual term, whole and universal life insurance
› individual disability insurance
› long-term care insurance
› group life and health insurance
› life annuities
› segregated funds

property and casualty insurance – through direct response
› auto insurance
› homeowners/tenants insurance

travel insurance – through a network of more than 4,400 travel agencies
› trip cancellation/interruption insurance
› out-of-province/country medical
› travel accident insurance
› baggage insurance

reinsurance – through insurers, reinsurers and brokers
› life retrocession
› property and casualty reinsurance
› structured reinsurance

personal and commercial banking

(\$ MILLIONS, TAXABLE EQUIVALENT BASIS)

	% change	1998	1997
Net interest income	6%	\$ 4,224	\$ 3,972
Other income	1	1,376	1,359
Gross revenues	5	5,600	5,331
Provision for credit losses	35	304	226
Non-interest expenses	1	3,433	3,390
Net income before income taxes	9	1,863	1,715
Income taxes	12	755	677
Non-controlling interest and taxable equivalent adjustment	(16)	16	19
Net income	7%	\$ 1,092	\$ 1,019
Net income as a % of total net income	(100) b.p.	60%	61%
Return on equity	180 b.p.	29.7%	27.9%
Efficiency ratio	(230) b.p.	61.3%	63.6%
Average assets	11%	\$111,100	\$100,000
Average loans and acceptances	11	106,300	95,600
Average deposits	(2)	85,400	87,300

98 | performance

Personal and commercial banking's net income was up 7% from 1997 as revenues grew more quickly than expenses. The segment accounted for 60% of the bank's total net income and recorded an ROE of 29.7%, up 180 basis points from 1997.

Earnings reflected a \$50 million addition to the general provision in both 1997 and 1998 as well as a \$70 million pre-tax gain from the sale of the payroll business in 1997.

Revenues were up 6%, excluding the payroll gain. All the businesses showed increases, particularly insurance, which benefited from the acquisition of the Canadian operations of Mutual of Omaha.

Non-interest expenses were up only 1%, reflecting a focus on efficiency enhancement. The efficiency ratio improved by 230 basis points and, excluding the payroll gain, by 310 basis points over 1997.

Specific provisions for credit losses were \$254 million or .24% of average loans and acceptances, versus \$176 million or .18% last year, largely due to higher provisions on student loans.

personal and commercial banking



objectives This segment's objectives are to strengthen Royal Bank's leadership position in the Canadian personal and business marketplace, even in the face of growing monoline competitors, while selectively pursuing global opportunities. The segment is also focused on growing the insurance business through acquisitions, strategic alliances and internal growth. The aim is to continue to be a significant contributor to Royal Bank in terms of customer relationships, earnings, market position and products and services, and maximizing the synergies between the businesses to strengthen brand positioning, revenue growth and cost management. The segment is strategically managed through a focus on five balanced score card objectives – customer satisfaction, employee commitment and capability, business and sales performance (revenue growth, efficiency enhancement), portfolio quality and the management of risk, and corporate reputation and image.

strategies To strengthen its position, the segment is enhancing sales effectiveness for its large Canadian customer base, growing its mobile sales forces, deepening client segmentation, and leveraging its growing customer relationship management capabilities. It is also pursuing specific product superiority to compete with monoline competitors. Costs are being managed by moving routine activities to consolidated back offices. Portfolio quality and the management of risk are being further emphasized in this slowing and volatile economic environment.



Employees participate actively in the economic and social well-being of their communities, enhancing the bank's corporate reputation and image.

Outside Canada, opportunities will be pursued selectively, with priority on the U.S. and Caribbean markets. Atlanta-based Security First Network Bank's internet capabilities will also be leveraged.

personal and commercial banking

where we stand

operational review

personal financial services

- › The largest provider of personal financial services to 9 million Canadians.
- › Provides financial services to Caribbean clients through 19 locations.
- › Delivers financial products, services and advice to Canadians through over 30,000 sales and service staff, including approximately 750 mobile bankers, mortgage representatives and Investment & Retirement Planners, and through a network of over 1,200 branches, 4,800 banking machines and account updaters, and telephone, PC & internet banking services.



- › Purchased Atlanta-based Security First Network Bank (SFNB), giving us the ability to serve Canadian individuals such as "Snowbirds" and business travellers in the U.S.
- › Introduced products and services designed to meet clients' unique needs such as: *Royal Way*® – a new indirect automotive lending business, *RateLink Essential*™ – a chequing account with interest rates linked to *Royal Canadian Money Market Fund*™, a *Home Buyers' GIC*™, a Homeowner's Help Centre, a new student banking package, and targeted information and seminars for key client groups.
- › Enhanced segmentation and predictive modelling methods to better anticipate customer needs.

- › Improved client service in the Caribbean through increased bank machine and client card access and the introduction of Area Management in the Bahamas.
- › Continued to support youth and students through programs such as Junior Achievement and Computers for Schools, with staff time, refurbished computers and training for developing skills.
- › Revised policies and staff training to increase awareness on tied-selling, consumer privacy issues, and enhanced access to basic banking.
- › Invested over \$17 million in employee training including multimedia interactive sales training and financial planning for almost 6,000 personal bankers.



card services

- › Canada's largest provider of VISA and debit cards (by number of cards).
- › Serves over 6 million credit card and over 6 million debit card customers.
- › Provides merchants with electronic processing and point of sale solutions for credit and debit transactions
- › Founding member of Mondex International and a worldwide leader in smart payment cards.

- › First to launch Visa Platinum cards in Canada.
- › Entered affinity market with several partners, including McGill University and World Wildlife Fund Canada.
- › Continued to grow business cards, *CreditLine for small business*™ Visa continued to lead the market, almost doubling its portfolio, and launched the first co-branded corporate card with Canadian Airlines.
- › Led all financial institutions in cross-selling of card base, with 66% of cardholders reporting that Royal Bank was their main financial institution.

- › Largest Canadian bank issuer of debit cards and only issuer to provide Purchase Security and Extended Warranty features. Launched innovative Client Cards, designed for students.
- › Signed agreement with Total Systems to out-source credit card issuing processing operations.
- › Continued to lead e-commerce delivery solutions using internet secure electronic transaction technology including participation in Industry Canada small business pilot.
- › Announced a new pilot in Sherbrooke, Quebec to test multi-application smart cards and the first Canadian on-line Mondex pilot project.

business banking

- › Canada's largest provider of business financing, deposits, primary banking relationship and mid-sized commercial clients, serving



- › Teams of market experts focused on growth segments, which include:
 - › agriculture & agribusiness
 - › public sector
 - › franchising
 - › professionals
 - › women entrepreneurs
 - › aboriginal-owned businesses
 - › young entrepreneurs
- › Specialized sales force delivers products and services through business banking centres, branches, telephone, ABM and PC/internet channels.

- › Launched *Connect@work*™, a one-stop internet package that includes Royal Direct Internet Banking and direct access to the world wide web, through a strategic alliance with AT&T Canada.
- › Launched a simplified new account opening process for small/medium enterprises, which also introduces customers to the full range of the bank's services.
- › Launched a full range of financing options up to \$100,000 for small business customers through a one-page application accessible by phone, fax, mail, internet or an account manager. The options include financing of Year 2000 solutions, *Royal Business Overdraft Protection*™, *Royal Business OperatingLine*™, and an enhanced *Royal Small Business Loan*™.

- › Launched Milestone Medica Corporation, Royal Bank Growth Corporation's commercialization vehicle focused on life sciences opportunities, through a joint venture with U.S.-based Research Corporation Technologies.
- › Published two Definitive Guides for small business owners – "Personal Financial Management" and "Managing Human Resources", and two 10-minute guides – "Business on the internet" and "The Year 2000".
- › Supported many initiatives focused on women and young entrepreneurs. These included being the founding sponsor of the newly formed national organization, Women Business Owners of Canada, and supporting over 100 youth interns placed with Canadian small businesses through the Career Edge program.



insurance

- › Canada's largest distributor of creditor and other insurance products authorized for sale through banks as measured by premiums (\$263 million). Serves 1.8 million customers.
- › Canada's largest provider of travel insurance with \$141 million in premiums distributed mainly through a network of more than 4,400 travel agencies.
- › Canada's 6th largest issuer of new individual life policies.

- › Completed the acquisition and integration of the Canadian life, health, disability and travel insurance business of Nebraska-based Mutual of Omaha Companies.
- › Began offering an Employee Benefits Plan for small business which provides a range of life and health benefits for businesses with five to 50 employees.
- › Began offering several new life insurance products through direct response, including term 10, term 5 and a seniors' life insurance product.

- › Successfully launched personal lines home and auto insurance in Ontario through direct response.
- › Successfully launched *HealthSelect*®, a new travel insurance product for seniors.
- › Expanded travel insurance to provide emergency medical assistance for out-of-country medical plans of third-party insurers.
- › Expanded the life insurance call centre to include outbound telemarketing and support for corporate marketing initiatives.

personal financial services	% change	1998	1997
Gross revenues	6%	\$ 3,060	\$ 2,888
Average residential mortgages	12%	\$50,300	\$44,900
Average personal loans	14	19,400	17,000
Average personal deposits	(4)	62,600	65,100
Market share (1)			
Residential mortgages	90 b.p.	13.4%	12.5%
Personal loans	30 b.p.	15.3	15.0
Personal deposits	(10) b.p.	13.6	13.7

(1) As a % of all financial institutions in Canada at August 31. Excludes Royal Bank subsidiaries: Royal Trust, Action Direct and RBC Dominion Securities. Market shares for the entire group can be found on page 7.

- › Strong year-over-year revenue growth.
- › Gains in personal loans and mortgages market share for third straight year.
- › 466 b.p. efficiency improvement.

card services	% change	1998	1997
Average VISA outstanding balances (1)	15%	\$ 4,087	\$ 3,558
VISA card spending volumes	16	20,967	18,055
VISA merchant spending volumes	10	17,989	16,294
Interac/debit merchant transaction volumes	45	259,182	178,757
Delinquency ratio (2)	3 b.p.	.83%	.80%

(1) Includes total securitized amounts (1998 – \$2.6 billion, 1997 – \$1.5 billion).

(2) 90 day+ delinquencies as a % of outstandings.

- › New accounts increased 50%, indicating future growth in spending and outstanding balances.
- › Market share in Visa card spending volumes and outstanding balances, as a % of all financial institutions in Canada at August 31, 1998, increased by 124 b.p. and 71 b.p. respectively.

business banking	% change	1998	1997
Gross revenues	2%	\$ 1,741	\$ 1,714
Average assets	12%	\$34,900	\$31,100
Average loans and acceptances	12	33,700	30,000
Average deposits	8	19,600	18,200
Market share			
Total business financing (1)	—	14.1%	14.1%
Total bank business financing (2)	—	20.4	20.4
Total business deposits (1)	(120) b.p.	20.6	21.8
Primary relationship (3)	(100) b.p.	21.0	22.0

(1) Business, corporate and financial institution and trade financings and deposits of total financial institutions as at August 31.

(2) Business, corporate and financial institution and trade financings of total banks as at August 31.

(3) Financial institutions as at August 31.

- › Loans to small and medium enterprises, including agriculture accounts, increased by 12% to \$14.8 billion.
- › Gross revenues up 7% excluding \$85 million of one-time gain on sale and revenues from payroll business in 1997.
- › Efficiency ratio was 44.4%, down 160 basis points from 1997.

insurance	% change	1998	1997
Premiums written			
Creditor life and disability	13%	\$263	\$232
Life insurance	63	163	100
Travel related	22	141	116
Property and casualty	—	15	15
International reinsurance	300	52	13
	33%	\$634	\$476
Market share of premiums			
Creditor life and disability (1)	—	26%	26%
New life insurance (2)	—	2.4	2.0

(1) As a % of eight largest banks in Canada as at Oct. 1997 (for 1998) and Jan. 1997 (for 1997).

(2) As a % of new life insurance premiums in Canada as at June 30.

- › Total premiums up 33%.
- › Market share remained steady.

objectives

- › Grow revenues by 5% annually.
- › Grow earnings by 10% annually.
- › Improve efficiency.
- › Selectively pursue global opportunities.

strategies

- › Deliver a *One-on-one*TM customer experience that shows we understand individual client needs, can provide tailored solutions and we value customers' business.
- › Optimize network capabilities, focusing on local market/community needs, client preferences and emerging alternatives such as specialized sales forces and Security First Network Bank.
- › Leverage technology to improve network efficiency and increase sales effectiveness.
- › Broaden and deepen leadership talent base, providing employees with opportunities for personal and professional growth.

objectives

- › Grow earnings by 15% annually through revenue growth, improved efficiency and sound asset quality.
- › Increase credit and debit card market shares.

strategies

- › Create infrastructure to excel in sales and service, leveraging technology.
- › Develop world-class direct and database marketing, and risk management competencies.
- › Lead in technology, specifically smart cards, internet payments and point of sale devices.
- › Leverage customer relationships of other business units.
- › Develop North American plans, leveraging scale.

objectives

- › Profitable revenue growth with strong, sustainable returns.
- › High quality, diversified portfolio.
- › Strong customer and community centric performance.
- › Highly committed employees.

strategies

- › Lead in small business customer care, customer service and customer loyalty.
- › Strengthen and leverage the management of customer information and sales effectiveness, and selectively develop niche market capabilities in the U.S..
- › Enhance the management of risk, leveraging technology, leading edge techniques, and capital market opportunities.
- › Profitably align electronic commerce and other alternative and traditional channels, products, and our sales force to customer segment needs.
- › Strengthen service partner and business banker alignment and capabilities to deliver premium customer service.

objectives

- › Strong growth in all five lines – creditor, life, property and casualty, travel and reinsurance.
- › Expansion in select international markets.
- › Annual premiums of \$1 billion by 2000.

strategies

- › Expand existing insurance distribution channels including proprietary agents, independent brokers and direct response capabilities.
- › Build on domestic strengths such as creditor and travel insurance to pursue international opportunities.



royal mutual funds

over 35 mutual funds to Canadians, providing advice and client service through the group's branch network in Canada and by telephone through the *Invest by phone™* service of *Royal Direct*. Also available through full-service and discount brokers including RBC Dominion Securities and Royal Bank Action Direct.



royal trust

- › personal wealth management services
- › investment management
- › global private banking
- › *global securities services®*

Royal Trust's network includes 160 offices across Canada and offices in 22 other countries around the world.



rbc dominion securities – private client division

full-service securities brokerage, investment advisory and other investment services through a network of over 1,600 Investment Advisors in 290 branches in Canada and 6 offices around the world.



royal bank action direct

discount brokerage investment services for Canadians who prefer to self-manage their financial affairs and want convenience and high savings on commissions. Access to investment and retirement accounts via investment representatives, pc modem (*PCAction®*), internet (*NetAction™*), or touch-tone telephone (*TelAction®*).

wealth management

(\$ MILLIONS, TAXABLE EQUIVALENT BASIS)	% change	1998	1997
Net interest income	3%	\$ 347	\$ 336
Other income	7	1,828	1,708
Gross revenues	6	2,175	2,044
Provision for credit losses	(83)	1	6
Non-interest expenses	6	1,689	1,592
Net income before income taxes	9	485	446
Income taxes	(1)	184	185
Non-controlling interest	(40)	12	20
Net income	20%	\$ 289	\$ 241
Net income as a % of total net income	200 b.p.	16%	14%
Return on equity	(140) b.p.	48.3%	49.7%
Efficiency ratio	(20) b.p.	77.7%	77.9%
Assets under administration			
Institutional	4%	\$658,300	\$634,400
Personal	12	138,300	123,400
Mutual fund	12	27,500	24,500
	5%	\$824,100	\$782,300
Assets under management			
Institutional	8%	\$ 30,100	\$ 27,800
Personal	14	15,800	13,800
Mutual fund	12	27,500	24,500
	11%	\$ 73,400	\$ 66,100
Average assets	(3)%	\$ 11,900	\$ 12,300
Average personal loans	(11)	5,700	6,400
Average personal deposits	(1)	16,900	17,000

98 | performance

Wealth management's net income increased by 20%, but was up 7% excluding one-time restructuring costs of \$29 million after tax in 1997 (relating to the acquisitions of Richardson Greenshields as well as Scotiabank's and Montreal Trust's institutional and pension custody businesses). The increase reflected strong performances by Royal Trust's personal wealth management, investment management, global private banking and global securities services

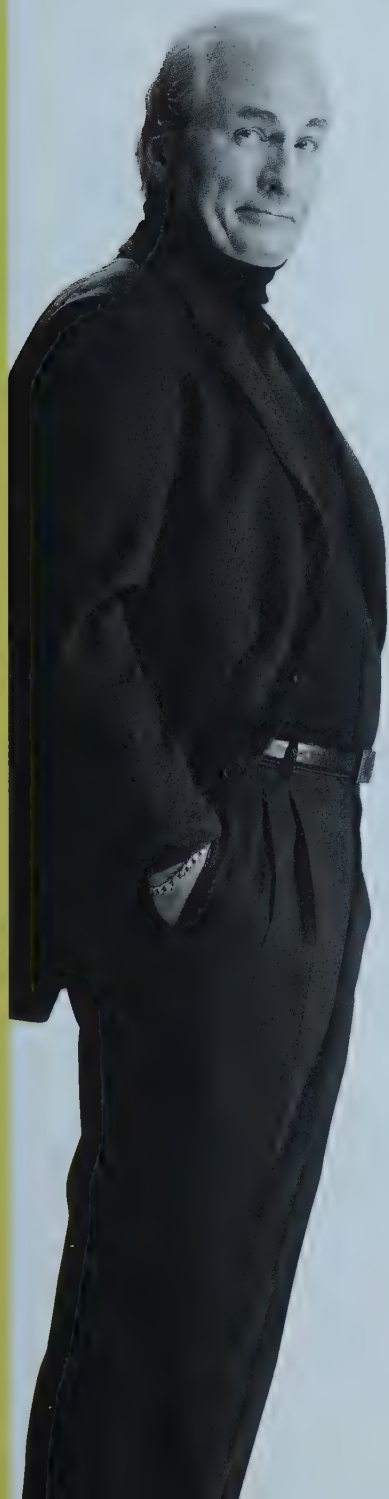
divisions. The segment accounted for 16% of Royal Bank's net income, unchanged from 1997 (after excluding a one-time restructuring charge last year). Return on equity was 48.3%, down 140 basis points.

Revenues rose 6%, on the strength of higher revenues from Royal Trust, Royal Mutual Funds and Action Direct. Royal Trust's revenues grew 15%, due to increases of \$33 billion in assets under administration and \$7 billion in assets under management. Royal Mutual Funds' revenues grew 31%, reflecting the extensive branch delivery network,

better trained staff and the introduction of several new mutual funds during the year. Revenues at Royal Bank Action Direct, the discount broker, were up 12% due to more client accounts and higher transaction volumes. However, revenues at RBC Dominion Securities' private client division fell 9% due to capital market volatility.

The segment's non-interest expenses rose 6% and the efficiency ratio was 77.7% versus 77.9% last year (75.4% before restructuring costs).

wealth management



strategies The wealth management segment has experienced several years of continued growth due in part to strong capital markets. While the segment will feel the impact of volatile capital markets in the short term, it plans to continue to leverage its proven capabilities. The recently announced grouping (effective November 1998) of the wealth management businesses under a single management team, with a "client first" focus, means that client needs will be

objectives Wealth management's goal is to increase its contribution to Royal Bank's earnings from the current 16% to 25% in 5 years, by building on its position as Canada's leading provider of wealth management and by growing its earnings outside Canada.

met more than ever in a professional and focused manner by people with whom they can establish a long-term and beneficial relationship.

Internationally, wealth management will expand by developing distribution alliances in under-represented markets. On a selective basis, the segment will consider acquisitions that offer clear business building and synergy opportunities and that deliver shareholder value.

wealth management

where we stand

operational review

royal trust

- › Canada's largest investment manager by assets under management and largest custodian by assets under administration.
- › Largest global private banking network of any Canadian financial institution by number of branches.



- › Acquired the North American private banking business of Credit Suisse.
- › Successfully completed the transition of the Bank of Nova Scotia's and Montreal Trust's pension and institutional custody business.
- › Named Best Offshore Banking Group by the *Financial Times*.
- › Opened global private banking offices in Chile and Colombia.
- › Formed new global private banking distribution alliances with leading banks in Taiwan and Uruguay.
- › For the second consecutive year, Royal Trust "MoneyGuide" was awarded the Apex Award of Excellence for publications.
- › Was top-rated for client service in Canadian custody for the 10th consecutive year (*Global Custodian, Fall 1998*), and Royal Trust was the 10th largest global custodian in the world in terms of global custody assets (*Institutional Investor, September, 1998*).
- › The quality of Royal Bank's sub-custody network ranked among the top 5 in the world for the third year in a row ("GSCS Benchmarks").
- › Invested significantly in training, with almost 400 employees now having their personal financial planning accreditation.
- › Registered as a foreign investment advisor in the United States to provide investment services to U.S. citizens and residents.



royal mutual funds

- › Canada's second-largest provider of mutual funds as measured by assets.

- › Became the second largest mutual fund company in Canada, in terms of assets.
- › Top-selling mutual fund company during the January/February RRSP season, with 3 funds (*Royal Balanced Fund™*, *Royal Bond Fund™* and *Royal Dividend Fund™*) among the top 10 choices.
- › Launched, in November 1997, 3 *Royal Strategic Index Funds* managed by James O'Shaughnessy, author of *What Works on Wall Street*. Assets exceeded \$270 million at October 31, 1998.
- › Introduced, in April 1998, *Royal Balanced Growth Fund™* and *Royal Canadian Value Fund™*. Balances were \$138 million at year-end 1998.
- › Introduced, in October 1998, six new Index Funds, with the most competitive fee structure in Canada.
- › Enhanced consistency of advice provided to clients through increased usage of Personal Investment Planners by the branch network.
- › Grew long-term assets (excluding money market and mortgage funds) which accounted for 72% of total assets at October 1998.
- › Ranked number one in telephone customer servicing for the second consecutive year in Dalbar's mutual fund industry survey.
- › Acquired over 200 plan sponsor clients for the new *Royal Choices Plan®* which offers to group RRSP plans the choice of Royal Trust, RBC Dominion Securities or Royal Bank Action Direct as the plan provider.
- › Continued to enhance internet services, providing on-line fund switches and introducing online purchases in 1999.

rbc dominion securities – private client division

- › Canada's largest investment advisor in RSP/RIFs, non-registered investment assets, mutual funds, equities and wealth management.



- › Over \$83 billion of investment assets.
- › Assets in the *Sovereign Investment Program* increased to \$3 billion, up 74% from last year.
- › Increased non-discretionary *Advisor Account* by 78% from last year to \$2.4 billion.
- › Introduced *Access* and *Sovereign International* in the 3rd quarter, attracting \$260 million in new assets within these two new products.
- › Increased insurance revenue by more than 165% to \$13 million.
- › Grew Family ESP market share to 43%. (*Investor Economics*)
- › Launched *AdvisorNet Online Research* for our Investment Advisors, providing electronic database for research.
- › Launched *FundFacts*, a new user-friendly, Windows-based desktop system for mutual fund facts and data.
- › Launched *Practice Management Consulting Group*, an in-house consulting service for the division's top investment advisors.
- › www.rbcds.com usage grew to over 130,000 hits per day.



royal bank action direct

- › Canada's second largest discount broker as measured by number of accounts and trade volumes.
- › One of the leading suppliers of electronic brokerage & investment services in Canada (*Investor Economic Survey*).

- › Over 135,000 of approximately 300,000 clients were active users of electronic delivery brokerage services.
- › Introduced *NetAction™*, an internet trading service with portfolio access, real time quotes and order confirmation.
- › Added client investment seminars to Action Direct services.
- › Over 40% of transactions now done on electronic channels, up from 22% in 1997. Over 55% of new accounts are using on-line services.
- › Opened four new Investor Centres, leading to 12 centres across Canada.
- › Action Direct's *The Mutual Fund Marketplace™* now offers over 875 mutual funds from 95 fund families.

financial performance (\$ MILLIONS)

objectives & strategies

royal trust	% change	1998	1997
Gross revenues	15%	\$ 1,013	\$ 880
Fee revenues	22	\$ 751	\$ 617
Assets under administration			
Institutional	3%	\$656,700	\$635,300
Personal	21	50,400	41,500
Mutual fund	12	27,500	24,500
	5%	\$734,600	\$701,300
Assets under management			
Institutional	8%	\$ 30,100	\$ 27,800
Personal	14	15,800	13,800
Mutual fund	12	27,500	24,500
	11%	\$ 73,400	\$ 66,100
Average personal loans	—%	\$ 1,450	\$ 1,450
Average personal deposits	2	13,520	13,300
Average residential mortgages	(16)	4,000	4,750

› Fee revenues increased 22%.

› 30% of gross revenue was generated outside Canada.

› Assets under administration grew 5%.

› Assets under management grew 11%.

objectives

- › Grow fee revenues at an average annual rate in excess of 10%.
- › Be top-rated for client service.

strategies

- › Continue to roll out a financial planning-based sales and relationship service delivery to affluent clients.
- › Offer clients integrated solutions to their financial needs including investment management, custody, retirement and estate planning services.
- › Expand global private banking distribution in new markets through alliances and selected acquisitions.
- › Build global securities services sales outside Canada.

royal mutual funds	% change	1998	1997
Gross revenues (1)	31%	\$ 297	\$ 227
Mutual fund assets			
Equity	6%	\$ 8,400	\$ 7,900
Money Market	8	6,600	6,100
Fixed income	21	5,100	4,200
Balanced	17	7,400	6,300
	12%	\$27,500	\$24,500
Market share (2)			
Assets	—	8.8%	8.8%
Number of fund accounts	17%	3,650,000	3,124,000

(1) After deducting fees paid to the investment manager, and to brokers and Royal Trust branches for distributing the funds.

(2) As a % of total mutual fund assets in Canada (reported by IFIC) excluding CIBC Imperial pool funds.

› Revenues were up 31%.

› Mutual fund assets increased 12%, to \$27.5 billion.

› Number of accounts grew by 17%.

› Assets in group plans up 21%.

objectives

- › Increase mutual fund revenues by 15% annually.
- › Achieve top rankings in client service and advice.

strategies

- › Focus on growth and retention of the existing client base.
- › Support the delivery of value-added service offerings and advice through the RBFG branch network.
- › Provide convenient access for all clients, continuing to develop alternative delivery channels to service new clients.
- › Enhance technology to improve service to clients and to effectively manage the cost of delivery.

rbc dominion securities – private client division	% change	1998	1997
Gross revenues	(9)%	\$ 797	\$ 877
Assets under administration (1)	7	\$83,200	\$78,000

(1) Includes Royal Mutual Funds.

- › Assets under administration were up 7%.
- › Capital market volatility caused revenues to decline 9%.
- › Expenses decreased by 9%.

- › Fee-based assets were up 64% to almost \$7 billion.
- › Market share of full-service investment dealer assets increased to 31.8% (*Investor Economics*).

objectives

- › Grow assets under administration by 10% per year.
- › Increase proportion of fee-based assets.
- › Achieve top rankings in client service.

strategies

- › Develop the most knowledgeable investment advisor team in North America.
- › Provide advisors with comprehensive tools and support mechanisms to ensure a customized approach to each client.
- › Focus on asset gathering and fee-based services.
- › Improve operational and Investment Advisor productivity.

royal bank action direct	% change	1998	1997
Assets under administration (1)	24%	\$ 6,700	\$ 5,400
Client accounts	27	293,000	231,000

(1) Includes Royal Mutual Funds.

- › Assets under administration were up 24%.
- › Revenues rose 12%.
- › Welcomed over 70,000 new accounts.

- › Transaction volumes up 14%.
- › Handled approximately 7.5 million incoming calls.
- › Market share of accounts exceeds 17% (*Investor Economic Survey*).

objectives

- › Grow revenues at an average rate of 20%.
- › Achieve market share of 25%.

strategies

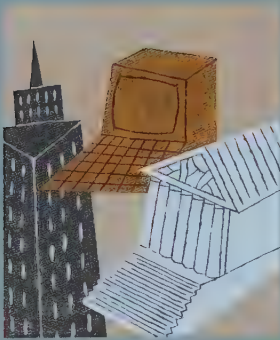
- › Achieve high ranking for client satisfaction.
- › Increase brand equity and market awareness.
- › Invest in technology to enhance the network with a focus on client value, ease of access and convenience.
- › Seek opportunities for expansion.



corporate banking

a complete range of credit and operating services through an international network of relationship managers

- › corporate loans
- › loan syndications
- › global cash management
- › project and structured finance
- › tax structured finance
- › structured trade
- › asset securitization
- › loan trading
- › managing risk through:
 - › advanced portfolio management
 - › sophisticated risk mitigation techniques



financial institutions & trade

correspondent banking services to 3,500 of the world's largest financial institutions:

- › credit services
- › deposit services
- › collection services
- › clearing services
- › payment services
- non-bank financial institution services provided to insurance companies, finance companies, and investment dealers in major financial markets around the world:
- › credit products
- › operating products
- › treasury products
- global trade & commodity finance services:
- › letters of credit
- › guarantees
- › receivables financing



rbc dominion securities – institutional divisions

- global markets
- › 24hrs/day foreign exchange, currency risk management, extensive global sales/trading network
 - › fixed income and capital markets services including origination and distribution of new products, secondary market sales and trading of government, provincial, municipal and corporate debt instruments, interest rate derivatives, swaps, risk management
 - › money market products including overnight funding, commercial paper, all major currency funding, Canadian dollar securities funding

corporate and investment banking

(\$ MILLIONS, TAXABLE EQUIVALENT BASIS)	% change	1998	1997
Net interest income	(4)%	\$ 689	\$ 721
Other income	18	1,299	1,097
Gross revenues	9	1,988	1,818
Provision for credit losses	171	385	142
Non-interest expenses	13	1,176	1,040
Net income before income taxes	(33)	427	636
Income taxes	(46)	126	235
Non-controlling interest and taxable equivalent adjustment	24	73	59
Net income	(33)%	\$ 228	\$ 342
Net income as a % of total net income	(800) b.p.	12%	20%
Return on equity	(580) b.p.	12.9%	18.7%
Efficiency ratio	200 b.p.	59.2%	57.2%
Average assets	17%	\$128,100	\$109,900
Average loans and acceptances	29	67,700	52,400
Average deposits	16	72,000	61,900

investment banking

- › advisory services for mergers, acquisitions, divestitures and reorganizations
- › equity and debt underwriting

global equity

- › comprehensive Canadian equity research products
- › trading/sales of listed equities and related products for institutional investors
- › distribution of new issues
- › North American/international structured product solutions
- › global mining research, sales and trading

98 | performance

In 1998, corporate and investment banking's earnings fell by a third and accounted for 12% of the bank's net income versus 20% in 1997. This decline stemmed from a higher provision for

credit losses. Return on equity was 12.9% compared to 18.7% in 1997.

Revenues increased 9% while non-interest expenses were 13% higher, leading to a 200 basis points deterioration in the efficiency ratio to 59.2%.

The provision for credit losses was \$243 million higher than in 1997.

This largely related to an account in the forestry sector to which the bank had lent money in the late 1980s, a trade finance account, exposure in Asia (where loss provisions were up \$41 million from 1997) and a \$25 million addition to the general provision.

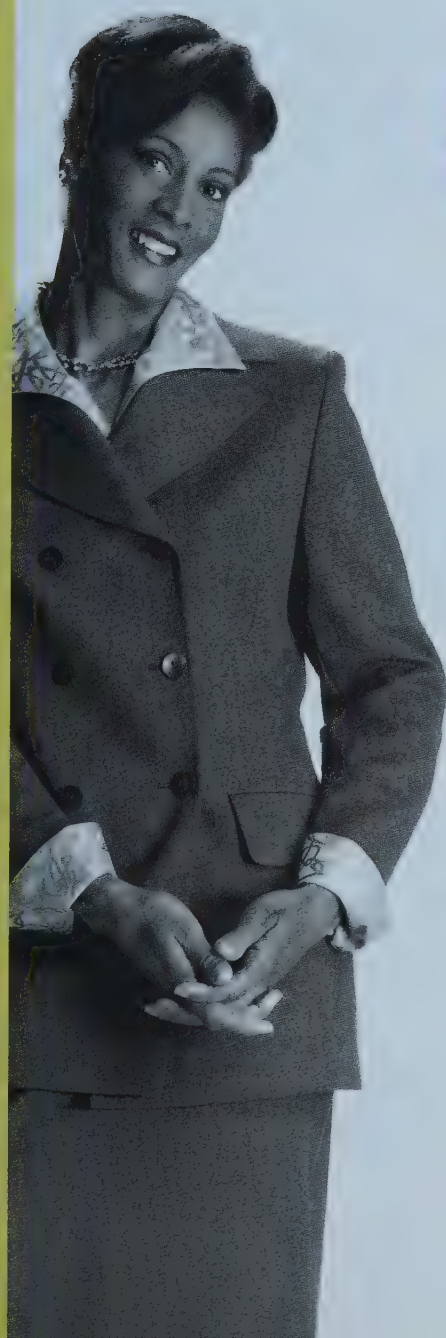
corporate and investment banking



objectives The segment's objective is to be the leading provider of financial services for corporate, government and institutional clients in Canadian markets based upon close relationships, superior advice, a broad product offering and excellent execution capabilities. The businesses will also continue to hold a leading position in selected products and industry sectors globally.

strategies To ensure maximum effectiveness in serving corporate, government and institutional clients, the businesses of this segment are being brought together under the RBC Dominion Securities management structure as of November 1, 1998. The corporate banking and financial institutions and trade businesses are being combined with investment banking to form a new corporate and investment banking division. This division and two others – global markets and global equity – will represent the three businesses in the

segment. Its strategy will be relationship driven, with a partnership of bankers and investment bankers developing unified client, industry, product and loan portfolio-management strategies. The businesses will co-ordinate their efforts to add product capability in the U.S. that is targeted to our client base. Results will be enhanced by refocusing capital and resources based on a refined view of total relationship profitability to Royal Bank and by emphasizing cost control throughout fiscal 1999.



corporate & investment banking

where we stand

operational review

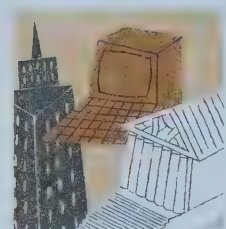
corporate banking

- › Serves more than 1,000 corporate and institutional clients in Canada, the USA, Europe, Latin America and Asia.
- › Delivers all the capabilities of the group to clients around the world.
- › Leads in market position and importance domestically according to independent benchmarking.



- › Prepared for the full integration of the bank's wholesale businesses with RBC Dominion Securities effective November 1, 1998.
- › For the second consecutive year, ranked as number one corporate bank in Canada, capturing the majority of lead positions in our target market and surpassing our competitors in customer service. (*Greenwich Associates*)
- › Conducted complete review of loan portfolio and significantly reduced non-productive relationships.
- › Streamlined operations in Asia to balance business strategies with market conditions.
- › Expanded North American Securitization Group's operations.

- › Strategically focused on selected industries including energy, global communications & technology, public sector, privatization & infrastructure, mining & metals, forest products, automotive and real estate.
- › Once again, ranked among top 10 energy banks in the world. (*The Petroleum Economist, UK*)
- › Currently ranked as 18th largest arranger/co-arranger of syndicated loans in the world. (*LPC Gold Sheets*)
- › Worked closely with investment banking to construct comprehensive lending and capital market solutions for a variety of clients in sectors such as energy, technology and communications.



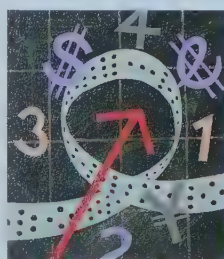
financial institutions and trade

- › Exclusive agent for almost 50% of the world's largest banks in settling their Canadian dollar interbank payments.
- › Leading bank to Canadian insurance industry.
- › Maintains trade lines in over 130 countries.

- › Secured the Canadian clearing business of the three new Schedule 2 banks that have entered Canada in the past 12 months.
- › Expanded Intellitracs, our intelligent investigation system, to better service our correspondent banking clients using Society for Worldwide Interbank Financial Telecommunications (S.W.I.F.T.).

- › Increased our equity investment in Northstar Trade Finance Inc., which provides medium-term buyer financing for Canadian exporters.
- › Increased our focus on helping small and medium enterprises with their international trade needs.

rbc dominion securities – institutional divisions



- › Canada's most profitable foreign exchange bank.
- › Leader in Canadian fixed income sales and trading.
- › Leader in capital markets advice and services to corporate and government clients in Canada.
- › Largest number of "All-Star" research analysts of any Canadian investment dealer according to the BWI survey.
- › Top-rated dealer in Canadian equity derivatives as measured by 1998 Derivatives Strategy survey.

- › Lead-managed 57 debt and equity financings and co-managed 98 other transactions to raise an aggregate \$22.7 billion for clients (surpassing competitors).
- › Assisted 28 companies in accessing the public equity market for the first time for proceeds of \$3.4 billion or 77% of all IPO dollars raised in 1998.
- › Advised on 14 of the top 25 M&A transactions in Canada in 1998.
- › Real estate finance group, DS Marcil, arranged an industry-leading \$2 billion in sales for clients, representing more than 125 buildings and 20 million sq. ft. of office, retail, industrial, residential and hotel properties.
- › Achieved record level of commission income from global institutional clients and number one market share of commissions paid for trading of Canadian-listed equity securities.
- › Established trading team to focus on smaller capitalization companies.
- › Significantly expanded U.S. distribution capability for Canadian equity products.

- › Acquired equity interest in Australian Securities firm Hartley Poynton Limited to further expand global mining initiative.
- › Approximately doubled revenues and profits from global equity derivatives operation, including a successful expansion in Europe.
- › Achieved record level of foreign exchange earnings, diversified across Asia, Europe and the Americas.
- › Formed RBC New York Forex, to execute institutional customer business on an agency basis.
- › Installed electronic dealing platform *RBC DealSecure™*, allowing clients direct access to foreign exchange services.
- › Acquired bond division of Hambros Bank to improve underwriting and sales/trading capabilities of global fixed income group.
- › Introduced eight significant new issuers to the money market.
- › Formed strategic alliance with Koch Industries, expanding capabilities of energy-sector commodity and related product risk management.

financial performance (\$ MILLIONS)

objectives & strategies

corporate banking	% change	1998	1997
Gross revenues.....	17%	\$ 488	\$ 417
Average assets.....	26%	\$31,500	\$25,000
Average loans and acceptances.....	30	30,000	23,100

› A 30% increase in average loans and acceptances was accompanied by a 17% increase in revenues reflecting a highly competitive pricing environment.

› Efficiency ratio rose slightly but remains competitively positioned in the low 50s.

› Specific provisions for credit losses increased this year due to the economic turmoil in Asia and a forestry sector account referred to on pages 42-43.

objectives

› Sustain number one market position in Canada and be the bank of choice for selected clients in target industries internationally.

› Achieve top quartile risk-adjusted returns.

strategies

› Maintain position as a low-cost producer.

› Ensure a sound and diversified portfolio.

› Allocate credit according to the extent to which we have multi-product relationships with clients.

› Enhance fee-based businesses such as securitization, syndication and secondary loan funding, and de-emphasize asset growth.

financial institutions and trade	% change	1998	1997
Gross revenues.....	(5)%	\$ 349	\$ 369
Average assets.....	3%	\$10,600	\$10,300
Average letters of credit.....	19	14,000	11,800
Total payment volumes (thousands).....	8%	4,000	3,700
Payment errors (per 10,000 payments).....	(26)%	1.4	1.9

› Average letters of credit balances up 19%.

› Revenues down due to reduced exposure in emerging markets.

› Payment errors improved due to rigorous quality improvements and investment in technology.

objectives

› Become one of the top 5 trade processing banks in North America.

› Integrate domestic trade operations with Business Banking in order to provide a full range of trade solutions for Canadian business.

› Maintain position as leading provider of Canadian dollar payment services to foreign correspondent and Schedule 2 banks.

strategy

› Improve synergies within new corporate and investment banking group structure to grow and diversify revenues.

› Improve operating efficiency.

› Maintain superior risk portfolio.

rbc dominion securities – institutional divisions	% change	1998	1997
Gross revenues.....	12%	\$ 1,151	\$ 1,032
Average assets.....	15%	\$86,000	\$74,600

› Gross revenues up 12%.

› Average assets up 15%.

objectives

› Maintain leading position in global foreign exchange and Canadian fixed income sales and trading activities.

› Maintain number one ranking in Canada in debt and equity financing and merger, acquisition and other advisory services.

› Further develop international investment banking capabilities in targeted industry sectors and international distribution of structured equity products.

› Build upon top presence in equity sales, trading and research to provide superior solutions for clients.

› Focus on maximizing long-term profitability.

strategies

› Retain the best people.

› Draw upon cross-discipline strengths to provide superior solutions and transaction proposals.

› Sharpen focus on selected industry sectors through coordination with corporate lending functions and other divisions.

› Continue to grow global equity derivatives business.

› Continue to evolve systems and infrastructure capabilities.

1998 performance: an overview



Highlights

- > Return on common shareholders' equity of 16.7%, while total return to shareholders of 17.5%
- > Fully diluted earnings per share of \$2.30, up 8% from 1997
- > Fifth consecutive year of record profits
- > Net income from personal and commercial banking up 2%, total asset management 20% higher, net down 33% in corporate and government banking
- > International net income up 1% to \$477 million, excluding sale of LDC bonds and reversal of security loss from 1997
- > Revenues at \$10.1 billion, up 8% from 1997
- > Core other income 40% of total revenue, up from 37% in 1997
- > Efficiency ratio at 63.4% improved from 65.0% in 1997
- > Net interest income down
- > \$100 million added to general provisions
- > Common share dividend up 3%
- > Equity ratio targets for 1998 achieved at 27.5%

Revenue growth and diversification (further details on pages 34-38)

In 1998, revenue growth of 8% was spearheaded by other income, which was up 16% due to strong growth in most categories, particularly mutual funds, trading and investment management and custody. Net interest income was up 1%, but was 7% higher excluding the effects of securitizations and a reporting change described on page 34.

Efficiency improvement (additional details on pages 39-41)

The non-interest expenses-to-revenue ratio was 63.4% in 1998 versus 65.0% last year and a 63.0% objective for 1998. The bank is responding to slowing economic growth and weakness in capital markets by realigning its strategic priorities such that cost control now takes precedence over revenue growth.

A reconciliation of generally accepted accounting principles in Canada and the U.S. is provided in note 20 on page 87.

table 1 fully diluted earnings per share and net income growth

	FULLY DILUTED EARNINGS PER SHARE		NET INCOME	
	\$		\$ MILLIONS	
	1998	1997	1998	1997
Fully diluted earnings per share/Net income	\$5.30	\$4.91	\$1,824	\$1,679
Growth over prior year by business segment (1)				
Personal & commercial banking	\$.23	\$.52	\$ 73	\$ 165
Wealth management	.15	.13	48	41
Corporate & investment banking	(.35)	.60	(114)	192
Other	.36	(.43)	138	(149)
	\$.39	\$.82	\$ 145	\$ 249
Growth over prior year by component				
Net interest income (2)	\$.15	\$.72	\$ 42	\$ 218
Other income	1.35	1.94	431	618
Gross revenues	1.50	2.66	473	836
Provision for credit losses	(.37)	.12	(119)	37
Non-interest expenses	(.66)	(1.81)	(211)	(574)
Other (3)	(.08)	(.15)	2	1
	\$.39	\$.82	\$ 145	\$ 249

(1) For business segment income statements, see pages 18, 22 and 26.

(2) Taxable equivalent basis.

(3) Change in effective tax rate, non-controlling interest and, for fully diluted earnings per share only, preferred share dividends and other dilutive factors.

table 2 highlights of domestic and international results

(\$ MILLIONS)	DOMESTIC		INTERNATIONAL		TOTAL	
	1998	1997	1998	1997	1998	1997
Net interest income (1)	\$ 4,409	\$ 4,352	\$ 692	\$ 680	\$ 5,101	\$ 5,032
Other income	3,717	3,576	1,268	703	4,985	4,279
Gross revenues	8,126	7,928	1,960	1,383	10,086	9,311
Provision for credit losses	446	315	129	65	575	380
Non-interest expenses	5,441	5,315	958	738	6,399	6,053
Income taxes and non-controlling interest (2)	1,096	1,091	192	108	1,288	1,199
Net income	\$ 1,143	\$ 1,207	\$ 681	\$ 472	\$ 1,824	\$ 1,679
Average assets	\$179,700	\$169,000	\$81,600	\$70,500	\$261,300	\$239,500

(1) Taxable equivalent basis.

(2) Includes taxable equivalent adjustment.

Strong credit quality (more details on pages 42-46)

Net impaired loans fell to (.04)% of average loans and bankers' acceptances from .06% in 1997. The provision for credit losses ratio increased to .32%

from .25%, but remained below the medium-term target of .35% – .45%. The general provision was raised by \$100 million to \$850 million.

Balance sheet and capital management (detailed on pages 47-52)

To control growth in risk-adjusted assets and enhance capital ratios, the bank insured \$3.2 billion of residential mortgages and securitized \$1.1 billion of credit card receivables. Capital ratios were also strengthened by \$1.1 billion of internally generated capital, a \$100 million addition to the general provision and the issuance of \$500 million of subordinated debentures and \$300 million of preferred shares.

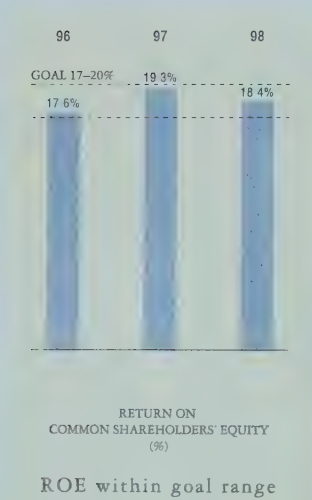
1998 performance
versus medium-term
(3-5 year) goals

table 3 financial performance and goals

	MEDIUM-TERM GOALS		PERFORMANCE		
	NEW	OLD	1998	1997	1996
Profitability					
Return on common shareholders' equity	17-20%	17-19%	18.4%	19.3%	17.6%
Efficiency (1)	59.5%	59.5%	63.4%	65.0%	64.4%
Provision for credit losses (2)	.35-.45%	.35-.45%	.32%	.25%	.34%
Dividend payout ratio (3)	30-40%	30-40%	32.3%	30.3%	32.5%
Capital adequacy					
Common equity to risk-adjusted assets	7.0%	6.0%	6.2%	5.8%	6.0%
Tier 1 capital	8.0%	7.0%	7.4%	6.8%	7.0%
Total capital	11-12%	10.0%	10.5%	10.0%	9.4%

(1) Non-interest expenses as a percentage of gross revenues on a taxable equivalent basis.
(2) As a percentage of average loans and bankers' acceptances.
(3) Common dividends as a percentage of net income after preferred dividends.

In establishing its 3-5 year goals, the bank takes into consideration expected economic and market conditions, rates of return earned in the financial services industry, the bank's previous performance and expected changes in its business mix.



Return on common shareholders' equity (ROE)

Goal

- 3-5 year ROE goal reflects the bank's desire to provide a greater premium over the long-term risk-free rate of return (as represented by the yield on 10-year Government of Canada bonds) than is available on similar equity investments.
- Raised the goal from a range of 17-19% to 17-20%.

Performance

- ROE of 18.4% in 1998, up from 17.6% in 1996.
- ROE goal of 17-20% achieved in 1998.
- ROE goal of 17-20% achieved in 1998.

Efficiency

Goals

- Efficiency ratio goal of 59.5%, to be achieved by growing costs more slowly than revenues.
- Ambitious efficiency enhancement goals for business segments: personal and commercial banking targeting reduction of 770 basis points (versus 710 in 1997), wealth management of 830 basis points (690 last year), and corporate and investment banking of 410 basis points (620 in 1997). See table to left.

Performance

- Efficiency ratio of 63.4% in 1998, up from 61.3% in 1997 and 59.2% in 1996.
- Efficiency ratio of 63.4% in 1998, up from 61.3% in 1997 and 59.2% in 1996.

business segment efficiency ratio		3-5 YEAR GOAL	
	1998		
Personal and commercial	61.3%	53.6%	
Wealth management	77.7	69.4	
Corporate and investment	59.2	55.1	
Royal Bank	63.4%	59.5%	

Ambitious business segment efficiency goals

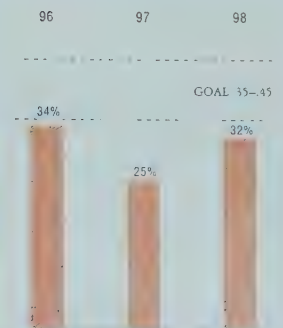
Provision for credit losses

Goal

- › Maintain, over a full economic cycle, a provision for credit losses of between .35% and .45% of average loans and bankers' acceptances.

Performance

- › Provision for credit losses of .34% in 1998, below the 35-45% medium-term goal.
- › Excluding a \$100 million addition to the national provision, a provision for credit losses would have been .27%.



PROVISION FOR CREDIT LOSSES
(% of average loans and bankers' acceptances)

Credit performance
better than goal

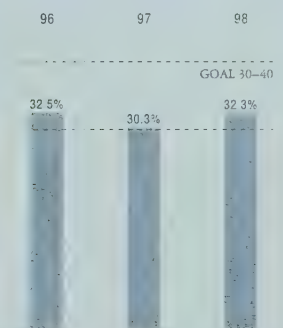
Dividend payout ratio

Goal

- › Reflects balance between need to retain earnings to finance future growth and provide current income to shareholders.
- › Maintained goal at 30-40% in 1998.

Performance

- › Dividend payout ratio of 32.3% in 1998, within the 30-40% goal.
- › Quarterly common share dividends increased from 10¢ to 12¢ per share in 1998, and to 14¢ per share in 1999.
- › Dividends of 43.75¢ per common share were paid in 1998.



DIVIDEND PAYOUT RATIO

Dividend payout
in target range

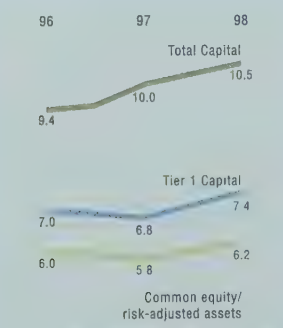
Capital adequacy

Goals

- › Higher goals reflect desire to compare more favourably with well-capitalized North American banks and to retain strong debt ratings.
- › Raised medium-term goals this year for common equity to risk-adjusted assets to 7% from 6%, for Tier 1 capital ratio to 8% from 7% and for Total capital ratio to between 11-12% from 10%.

Performance

- › Common objectives for 1998 at 8.0% (Tier 1 capital ratio), 10.0% (Total capital ratio) by 2000 would be 8.5% (Tier 1 capital ratio), 11.0% (Total capital ratio) and 10.0% (Total capital ratio) by 2005.

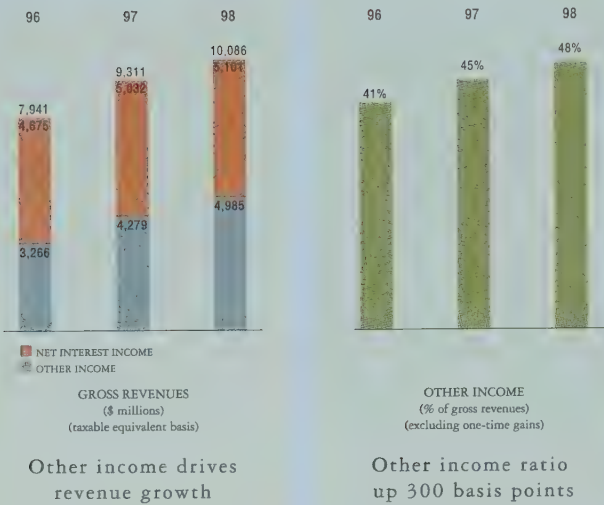


CAPITAL RATIOS
(%)

Capital ratios
exceeded '98 objectives

strategic priority

Revenue growth and diversification



Highlights

- > Revenue growth of 8%, in line with the 8-10% objective for 1998.
- > Revenue growth of 7%, excluding one-time revenues.
- > Other income up 16%, accounting for 49% of revenues compared to 40% in 1997.
- > Net interest income up 1%, but 7% excluding securitizations and reporting change.
- > Net interest margin down 15 basis points, but down 5 basis points excluding securitizations and reporting change.

Net interest income

Net interest income was up 1% to \$5.1 billion, but increased by 7% excluding the effects of securitizations and a reporting change, described below.

Positively impacting net interest income this year were greater asset volumes (partially from higher market shares for residential mortgages and personal loans) and a wider spread between the prime rate and core deposit funding costs. The latter stemmed from an increase in the average Canadian prime rate to 6.4% this year from 4.8% last year.

However, four factors had a dampening effect on net interest income this year. First, credit card securitizations of \$1.5 billion at the end of 1997 and \$1.1 billion in this year's second quarter reduced net interest income by \$167 million in 1998, as these revenues are now included in other income (under "securitization revenues"). Second, net interest income was reduced by \$102 million due to a change in reporting for equity derivatives that took effect in this year's third quarter. Funding costs for the equity derivatives portfolio are now included in interest expense, which reduces net interest income. Previously, these costs were netted against trading revenues. Third, a higher proportion of wholesale deposits, a lower proportion of individual deposits and an increase in lower-yielding assets such as reverse repurchase agreements, securities and derivative-related assets dampened growth in net interest

table 4 change in net interest margin

	1998	1997
Net interest margin (1)	1.95%	2.10 %
Components of change from prior year:		
Prime-core deposit spread	.10 %	(.10)%
Asset/deposit mix	(.13)	(.22)
Card securitizations	(.06)	—
Change in reporting for equity derivatives	(.04)	—
Mortgage funding costs	(.02)	.14
Total change from prior year	(.15)%	(.18)%

(1) Net interest income, on a taxable equivalent basis, as a percentage of average total assets.

income. Finally, higher mortgage funding costs also reduced net interest income.

Were it not for the credit card securitizations and the change in reporting for equity derivatives, net interest income would have been up 7% from 1997.

Net interest income (continued)

As shown in table 4 on page 34, the net interest margin declined by 15 basis points from 1997, with 10 basis points relating to the securitizations and change in reporting for equity derivatives. The remaining 5 basis

point decline stemmed from higher mortgage funding costs and a lower-yielding asset mix, which were partly mitigated by a wider spread between the prime rate and core deposit funding costs.

Other income

As shown in table 5, other income increased by 16% from 1997, with growth recorded in each business segment. Personal and commercial banking's other income was up 1% and represented 25% of this segment's total revenues. Wealth management's other income rose 7% to account for 84% of its revenues, while corporate and invest-

ment banking's other income increased by 18% to make up 65% of its revenues. In all, other income accounted for 49% of the bank's total revenues, up from 46% in 1997.

Excluding one-time gains, which are described in footnote 2 to table 6, other income was up 14% from last year, and accounted for 48% of total revenues, up from 45% in 1997. Also excluding

Outlook

The bank expects percentage growth in net interest income to be in the low single digits in 1999 and the net interest margin to decline slightly. This is due to the change in reporting for equity derivatives and slower economic growth next year, which could lead to lower loan growth and heightened competitive pricing pressures.

table 5 other income by business segment

	1998 (\$ MILLIONS)	GROWTH 1998/1997	1998 % OF SEGMENT REVENUES
Personal & commercial banking	\$1,376	1%	25%
Wealth management.....	1,828	7	84
Corporate & investment banking ...	1,299	18	65
Other	482	n/a	n/a
	<u>\$4,985</u>	<u>16%</u>	<u>49%</u>

table 6 other income growth

	1998		1997	
	(\$ MILLIONS)	%	(\$ MILLIONS)	%
Total other income	<u>\$4,985</u>		<u>\$4,279</u>	
Components of change from prior year:				
Securitization revenues	\$ 218	—%	\$ —	—%
Trading revenues (1)	150	25	238	65
One-time gains (2)	132	115	115	—
Mutual fund revenues.....	93	26	113	47
Investment management and custodial fees...	91	23	85	27
Gain (loss) on investment account securities..	29	78	(70)	(65)
Revenues from insurance activities	11	11	32	46
Foreign exchange revenues, other than trading	7	3	46	28
Card service revenues.....	(27)	(8)	50	18
Capital market fees	(54)	(5)	408	53
Other.....	56	6	(4)	—
Total change from prior year	<u>\$ 706</u>	<u>16%</u>	<u>\$1,013</u>	<u>31%</u>

(1) Excluding a change in reporting for equity derivatives which took effect in the third quarter of 1998, trading revenues were up \$48 million over 1997. This change in reporting reclassified \$102 million of funding costs on equity derivatives to interest expense. Previously, these costs were netted against trading revenues.

(2) One-time gains in 1998 of \$247 million consisted of \$277 million from the sale of LDC Brady bonds offset by \$30 million, principally related to writedowns of land. One-time gains in 1997 of \$115 million consisted of \$70 million from the sale of the payroll technologies business and \$65 million (net of expenses) from the cancellation of the planned acquisition of London Insurance Group, offset in part by \$20 million of minor asset write-offs and losses. There were no one-time gains in 1996.

income was up 6% from 1997.

As shown in table 6, most categories of other income recorded solid growth over 1997. Securitization revenues were \$218 million this year and nil last year due to the \$2.6 billion card securitizations mentioned on page 34. These revenues include what was previously recorded in credit card net interest income and what was included in card service revenues in other income. Accordingly, card service revenues declined this year but, excluding the securitizations, were \$48 million higher as the bank generated over \$700 million of new credit card balances during 1998.

Revenue growth and diversification (continued)

Other income (continued)

The increase in mutual fund fees reflected a \$3.0 billion or 12% increase in Royal Mutual Funds' balances, which resulted almost entirely from net inflows of money as capital appreciation during the year was less than \$100 million. The growth in balances stemmed from the bank's large distribution network, combined with a strong sales and service orientation and new product launches. This enabled Royal Mutual Funds

to become the second-largest mutual fund family in the country while retaining its market leadership among bank-owned mutual fund firms in terms of assets.

Higher investment management and custodial fees reflected increases of 6% in assets under administration and 11% in assets under management. The increases were even higher up to the end of the third quarter, but diminished subsequently due to the weakness in capital markets in the fourth quarter of 1998.

The growth in insurance revenues stemmed from international reinsurance operations and from the acquisition, early in the year, of the Canadian operations of Mutual of Omaha.

The decline in capital market fees reflected a sharp drop in underwriting fees in the fourth quarter as companies cancelled or deferred their public offerings of securities. In the first nine months of 1998, capital market revenues had risen by 6% over the first three quarters of 1997.

Outlook

➤ The bank expects single-digit percentage growth in other income in 1999, under the expectation that capital markets will not weaken substantially from the level in early December 1998. Should they weaken, capital market revenues could come under further pressure.

Trading revenues

Trading revenues include gains and losses on securities and derivatives which the bank trades actively, expects to hold for short periods, and whose values are marked-to-

market daily. Footnotes 1 and 2 to table 7 describe trading revenues included in net interest income and other income.

As shown in table 7, trading revenues declined by 8% in net interest income while increasing by 23% in other income, for an overall increase of 16%. Excluding the change in reporting for

equity derivatives, described in footnote 2 to table 7, trading revenues in other income were up 7%.

Despite an exceptionally volatile environment in the fourth quarter, trading revenues in the fourth quarter were essentially unchanged from the first three quarters of the year. The relatively strong performance this year reflects the fact that the bank generally avoids large proprietary trading positions and conducts the majority of trading to accommodate clients and in the major G7 markets and currencies. Involvement in emerging markets and structured derivative transactions was also limited.

table 7 trading revenues

(\$ MILLIONS)	1998	1997	1996
Net interest income (1)	\$179	\$194	\$183
Other income (2)	748	606	368
Total	<u>\$927</u>	<u>\$800</u>	<u>\$551</u>
By product:			
Interest rate risk management contracts (3)	\$ 51	\$ 14	\$ 21
Foreign exchange (4)	267	226	217
Debt instruments (5)	385	409	251
Equity, commodity and precious metal contracts	224	151	62
Total	<u>\$927</u>	<u>\$800</u>	<u>\$551</u>

(1) Interest earned on trading securities and other cash instruments held in the trading portfolios less funding costs associated with trading related derivative and security positions.

(2) Primarily realized and unrealized gains and losses on trading securities, derivative instruments and foreign exchange trading activities. Excluding a change in reporting for equity derivatives which took effect in the third quarter of 1998, trading revenues were \$646 million in 1998. This change in reporting reclassified \$102 million of funding costs on equity derivatives to interest expense. Previously, these costs were netted against trading revenues.

(3) Includes swaps, interest rate options, interest rate futures, forward rate agreements and related cash instruments used to hedge the trading derivatives portfolios.

(4) Includes foreign exchange spot, forward, futures and options contracts.

(5) Includes Canadian government securities and corporate debt instruments.

Trading revenues (continued)

The rise in trading revenues also reflects the continuing success of RBC DS Global Markets, created in 1996 by combining the bank's trading division with the RBC DS Global Fixed Income Group. The synergies which resulted from this com-

bination include better information flows and enhanced product coverage, leading to greater market penetration.

In terms of products, the bank has integrated its interest rate swaps and fixed income activities. Combined

revenues from interest rate risk management contracts and debt instruments were up \$13 million or 3%.

Foreign exchange trading revenues were up 18%. The increase in trading revenues

from equity, commodity and precious metals contracts largely stemmed from the change in reporting for equity derivatives described on page 34.

table 8 net interest income on average assets and liabilities

(\$ MILLIONS, TAXABLE EQUIVALENT BASIS)	1998			1997			1996		
	AVERAGE BALANCES (1)	INTEREST (2)	AVERAGE RATE	AVERAGE BALANCES (1)	INTEREST (2)	AVERAGE RATE	AVERAGE BALANCES (1)	INTEREST (2)	AVERAGE RATE
assets									
Deposits with other banks									
Non-interest bearing.....	\$ 394	\$ —	—%	\$ 89	\$ —	—%	\$ 78	\$ —	—%
Domestic.....	2,133	105	4.92	1,530	42	2.75	1,465	68	4.64
International.....	13,549	717	5.29	18,075	967	5.35	15,880	854	5.38
	16,076	822	5.11	19,694	1,009	5.12	17,423	922	5.29
Securities									
Investment account.....	13,562	787	5.80	21,665	1,272	5.87	22,119	1,557	7.04
Trading account.....	24,180	1,358	5.62	19,278	1,031	5.35	14,775	832	5.63
Loan substitute.....	804	79	9.83	823	76	9.23	682	71	10.41
	38,546	2,224	5.77	41,766	2,379	5.70	37,576	2,460	6.55
Loans (3)									
Residential mortgages.....	54,844	3,680	6.71	50,591	3,598	7.11	46,324	3,756	8.11
Personal.....	22,985	1,827	7.95	19,986	1,429	7.15	16,943	1,493	8.81
Credit cards.....	2,009	193	9.61	3,530	415	11.76	3,447	457	13.26
Business and government.....	63,669	5,069	7.96	57,477	4,010	6.98	51,056	3,784	7.41
Assets purchased under reverse repurchase agreements.....	24,444	998	4.08	14,038	499	3.55	5,503	366	6.65
	167,951	11,767	7.01	145,622	9,951	6.83	123,273	9,856	8.00
Total earning assets	222,573	14,813	6.66	207,082	13,339	6.44	178,272	13,238	7.43
Customers' liability under acceptances	10,033	—	—	8,790	—	—	7,105	—	—
Other assets	28,694	—	—	23,628	—	—	19,523	—	—
Total assets	\$261,300	\$14,813	5.67%	\$239,500	\$13,339	5.57%	\$204,900	\$13,238	6.46%
liabilities and shareholders' equity									
Deposits									
Non-interest bearing.....	\$ 9,971	\$ —	—%	\$ 9,133	\$ —	—%	\$ 7,351	\$ —	—%
Personal.....	81,344	3,126	3.84	84,795	3,195	3.77	88,270	4,436	5.03
Business and government.....	64,665	3,416	5.28	51,652	2,277	4.41	36,070	1,842	5.11
Bank.....	22,708	1,190	5.24	20,669	1,076	5.21	15,700	837	5.33
	178,688	7,732	4.33	166,249	6,548	3.94	147,391	7,115	4.83
Subordinated debentures	4,711	339	7.20	4,581	384	8.38	3,604	322	8.93
Other interest-bearing liabilities	29,827	1,641	5.50	28,510	1,375	4.82	19,067	1,126	5.91
	213,226	9,712	4.55	199,340	8,307	4.17	170,062	8,563	5.04
Acceptances	10,033	—	—	8,790	—	—	7,105	—	—
Other liabilities	26,963	—	—	21,626	—	—	18,529	—	—
	250,222	9,712	3.88	229,756	8,307	3.62	195,696	8,563	4.38
Shareholders' equity									
Preferred.....	1,971	—	—	1,741	—	—	1,884	—	—
Common.....	9,107	—	—	8,003	—	—	7,320	—	—
Total liabilities and shareholders' equity	\$261,300	\$9,712	3.72%	\$239,500	\$8,307	3.47%	\$204,900	\$8,563	4.18%
Net interest income	\$261,300	\$5,101	1.95%	\$239,500	\$5,032	2.10%	\$204,900	\$4,675	2.28%

(1) Calculated on a daily basis.

(2) Interest income includes loan fees (1998 — \$195 million; 1997 — \$192 million; 1996 — \$169 million).

(3) Includes impaired loans, and is net of the allowance for credit losses.

table 9 change in net interest income

(\$ MILLIONS, TAXABLE EQUIVALENT BASIS)	1998 vs 1997			1997 vs 1996		
	INCREASE (DECREASE) DUE TO CHANGES IN			INCREASE (DECREASE) DUE TO CHANGES IN		
	AVERAGE VOLUME (1)	AVERAGE RATE (1)	NET CHANGE	AVERAGE VOLUME (1)	AVERAGE RATE (1)	NET CHANGE
Assets						
Deposits with other banks.....	\$ (185)	\$ (2)	\$ (187)	\$ 117	\$ (30)	\$ 87
Securities						
Trading account.....	273	54	327	242	(43)	199
Investment account.....	(470)	(15)	(485)	(31)	(254)	(285)
Loan substitute.....	(2)	5	3	13	(8)	5
Loans						
Residential mortgages.....	292	(210)	82	328	(486)	(158)
Personal.....	228	170	398	244	(308)	(64)
Credit cards.....	(156)	(66)	(222)	11	(53)	(42)
Business and government.....	458	601	1,059	457	(231)	226
Assets purchased under reverse repurchase agreements.....	414	85	499	363	(230)	133
Total interest income.....	852	622	1,474	1,744	(1,643)	101
Liabilities						
Deposits						
Personal.....	(132)	63	(69)	(169)	(1,072)	(1,241)
Business and government.....	637	502	1,139	712	(277)	435
Bank.....	107	7	114	259	(20)	239
Subordinated debentures.....	11	(56)	(45)	83	(21)	62
Other interest-bearing liabilities.....	66	200	266	483	(234)	249
Total interest expense.....	689	716	1,405	1,368	(1,624)	(256)
Net interest income.....	\$ 163	\$ (94)	\$ 69	\$ 376	\$ (19)	\$ 357

(1) Volume/rate variance is allocated on the percentage relationship of changes in balances and changes in rates to the total net change in net interest income on a taxable equivalent basis.

table 10 other income

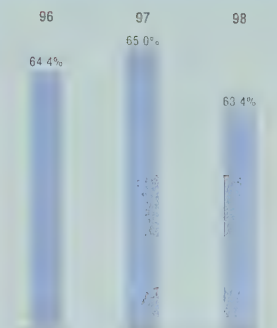
(\$ MILLIONS)	1998	1997	1996	1995	1994
Capital market fees.....	\$1,118	\$1,172	\$ 764	\$ 434	\$ 567
Trading revenues.....	748	606	368	362	345
Deposit and payment service charges.....	664	690	701	681	661
Investment management and custodial fees.....	495	404	319	286	278
Mutual fund revenues.....	447	354	241	190	202
Gain on investment account securities.....	343	37	107	17	49
Card service revenues.....	305	332	282	278	258
Securitization revenues.....	218	—	—	—	—
Foreign exchange revenues, other than trading.....	218	211	165	140	134
Credit fees.....	183	169	153	156	156
Revenues from insurance activities.....	113	102	70	104	100
Gain (loss) on disposal of premises and equipment.....	(32)	(24)	9	(6)	(5)
Other.....	165	226	87	96	118
Total.....	\$4,985	\$4,279	\$3,266	\$2,738	\$2,863

strategic priority

Efficiency improvement

Highlights

- Non-interest expenses up 6% and 7% excluding one-time expenses.
- Efficiency ratio of 63.4% versus 65.0% in 1997 and target for 1998 at 63.0%.
- Goal for 1999 is to continue to contain expense growth to a rate lower than revenue growth.



EFFICIENCY RATIO

Efficiency ratio improves

Non-interest expenses

By growing its non-interest expenses at a lower rate than revenues, the bank improved its efficiency ratio in 1998.

The efficiency (non-interest expenses-to-revenue) ratio improved to 63.4% from 65.0% in 1997. This 160 basis point improvement, however, fell slightly short of the bank's objective of a 200 basis point improvement in 1998, designed to bring the ratio to 63.0%. The shortfall stemmed from the significant weakening in revenue growth in the latter part of 1998, which could not be immediately matched by corresponding expense reductions.

Table 11 on page 40 shows the factors behind the growth in non-interest expenses over 1997. The one-time expenses are detailed in footnote 1 to the table.

Human resource costs rose partly due to an increase of 2,749 or 5% in the number

of employees (on a full-time-equivalent basis). Some of this reflected rapid growth in telephone banking, including the new call centre in Winnipeg, and more insurance staff, largely due to the purchase of Mutual of Omaha's Canadian operations.

Communication expenses rose as the bank stepped up its marketing efforts to compete more effectively with growing competition in Canada from both foreign and domestic institutions. Greater business volumes in telephone banking also led to higher communication expenses.

Equipment costs rose mainly due to new and upgraded computer equipment.

The bank has to date incurred approximately

\$85 million of costs for its Year 2000 program, with close to \$65 million incurred in 1998. Total costs for the Year 2000 program are now estimated to be \$170 million. A more complete discussion of the Year 2000 issue is provided on pages 61-62.

With signs of an economic slowdown evident, the bank is taking additional steps to control costs, particularly in businesses vulnerable to capital market weakness. The capital expenditure program has been constrained, certain initiatives have been postponed or scaled down, and discretionary spending is being cut.

Several initiatives started in earlier years to improve efficiency and, in certain cases, to also grow revenues will

continue. These include consolidation of back-office service and support environments and the movement of administrative functions from branches to back-offices so that front-line employees' time is freed up to serve customers. This is expected to result in \$100 million of benefits by 2001 in the way of cost savings and freed-up employee time that can be redirected to revenue growth.

Outlook

- In 1999, the bank expects expenses to continue to grow at a lower rate than revenues.

Efficiency improvement (continued)

table 11 non-interest expense growth

	1998		1997	
	(\$ MILLIONS)	%	(\$ MILLIONS)	%
Total non-interest expenses	\$6,399		\$6,053	
Components of change from prior year:				
Human resources	\$ 220	6%	\$ 510	18%
Communications.....	78	13	64	12
Equipment.....	33	6	58	12
Occupancy	(13)	(3)	29	6
One-time expenses (1)	(75)	(45)	97	139
Other	103	11	183	25
Total change from prior year	\$ 346	6%	\$ 941	18%

(1) One-time expenses of \$92 million in 1998 related largely to restructuring of the bank's back-office functions and the integration of the bond-trading business of Hambros Bank Limited. One-time expenses of \$167 million in 1997 related to a \$65 million restructuring charge for Richardson Greenshields Limited, a \$40 million charge for reconfiguring the branch network and various other charges aggregating \$62 million. One-time expenses of \$70 million in 1996 related to various restructuring initiatives.

Income and other taxes

Income and other taxes and government levies were \$1.6 billion, unchanged from 1997.

As shown in table 13 on page 41, the effective income tax rate was essentially unchanged in 1998. However, income taxes decreased by \$51 million due mainly to higher foreign exchange losses on hedging activities. These losses, which relate to hedging of net investments in foreign subsidiaries and branches, are recorded in retained earnings.

Note 12 to the financial statements on page 78 shows that the 38.2% effective tax rate differed from the statutory income tax rate of 42.9% due to lower tax rates for certain subsidiaries and the tax-exempt nature of income from loan substitute securities.

Note 12 also shows that current income taxes in 1998 were \$695 million while deferred income taxes were \$181 million. The latter related largely to credit losses in 1992 and 1993 which, although expensed through the income statement, could not be claimed for tax purposes as the bank

had insufficient taxable income. These losses were claimed against 1994-1998 taxable income and, as a result, the bank's net deferred tax asset declined from \$1.6 billion in 1994 to \$730 million in 1998.

As shown in table 13, higher sales taxes and property taxes contributed to the \$43 million increase in other taxes.

table 12 non-interest expenses

(\$ MILLIONS)	1998	1997	1996	1995	1994
Human resources	\$3,594	\$3,365	\$2,851	\$2,563	\$2,675
Occupancy					
Net premises rent.....	244	317	275	251	240
Premises repairs and maintenance.....	93	88	87	78	94
Depreciation.....	92	84	75	72	87
Property taxes.....	46	37	37	38	43
Energy.....	33	33	33	34	36
	508	559	507	473	500
Equipment					
Office and computer rental and maintenance.....	335	307	242	223	216
Depreciation.....	250	298	250	283	244
	585	605	492	506	460
Communications					
Telecommunications.....	209	188	161	140	140
Marketing and public relations.....	175	134	123	103	96
Postage and courier.....	156	164	145	130	128
Stationery and printing.....	125	101	94	88	86
	665	587	523	461	450
Other					
Professional fees.....	262	228	165	147	113
Business and capital taxes.....	118	126	123	116	117
Deposit insurance.....	111	115	118	116	100
Travel and relocation.....	98	95	80	83	71
Amortization of goodwill.....	62	59	38	38	48
Employee training.....	60	52	42	34	27
Donations.....	25	21	20	16	17
Other.....	311	241	153	104	83
	1,047	937	739	654	576
Total	\$6,399	\$6,053	\$5,112	\$4,657	\$4,661

table 13 taxes and government levies

(\$ MILLIONS)	1998	1997	1996	1995	1994
Income taxes					
Statement of income.....	\$1,175	\$1,090	\$ 880	\$ 755	\$ 655
Taxable equivalent adjustment.....	37	32	30	40	49
	1,212	1,122	910	795	704
Retained earnings (1).....	(299)	(158)	(43)	22	(95)
	913	964	867	817	609
Other taxes and government levies					
Goods and services tax and sales taxes.....	182	146	135	133	130
Payroll taxes.....	171	166	152	145	144
Deposit insurance premiums.....	111	115	118	116	100
Provincial capital taxes.....	95	81	85	77	77
Property taxes (2).....	63	49	48	49	55
Business taxes.....	23	45	38	39	40
	645	602	576	559	546
Total	\$1,558	\$1,566	\$1,443	\$1,376	\$1,155
Effective income tax rate (3)	38.2%	38.3%	37.3%	37.0%	35.2%
Effective total tax rate (4)	41.5%	45.0%	48.7%	52.1%	47.0%

(1) The income taxes reported in retained earnings principally relate to the hedging of foreign currency exposure on foreign operations.

(2) Includes amounts netted against other income regarding investment properties.

(3) Income taxes reported in the Statement of Income, as a percentage of net income before taxes.

(4) Effective total tax rate is total income taxes, other taxes and government levies as a percentage of net income before income taxes on a taxable equivalent basis and other taxes and government levies.

strategic priority

Strong credit quality

Highlights

- Net impaired loans down to (.04)% of total loans and bankers' acceptances from .96% in 1997
- Provision for credit losses at .32% of average loans and bankers' acceptances versus .33% last year.
- \$100 million added to the general provision raised it to \$666 million or .64% of risk-adjusted assets up from .51% in 1997
- Credit card delinquency ratio relatively stable at .83%

Impaired loans

Net impaired loans declined for the fifth consecutive year.

However, as shown in table 14, gross impaired loans at the end of 1998 were up \$182 million from a year ago. This reflected \$628 million of net additions to gross impaired loans and \$446 million of write-offs. The additional gross impaired loans largely related to a company in the forestry sector to which the bank had lent money in the late 1980s, a trade finance account and Asian exposures.

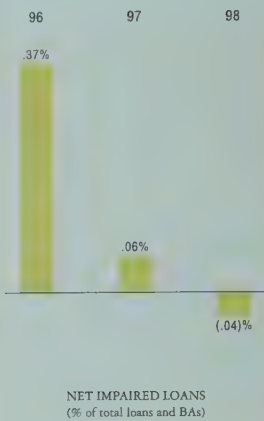
As shown in table 15 on page 44, gross impaired loans in British Columbia increased by \$402 million, largely due to the forestry sector account

mentioned above. In the Prairie provinces and Quebec, however, impaired loans fell substantially, partially due to write-offs.

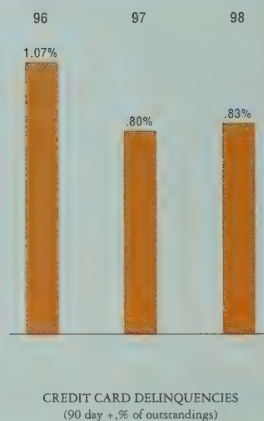
Outside Canada, gross impaired loans fell in the United States, Latin America, and the Caribbean, increased marginally in Europe, and were up \$176 million in Asia, with three-quarters of the increase attributable to Indonesia. The coverage ratio (allowance for credit losses as a percentage of gross impaired loans) in Indonesia was 94% at October 31, 1998 as the bank has taken substantial provisions for credit losses in that country.

The allowance for credit losses exceeded gross impaired loans by \$65 million at October 31, 1998, whereas a year ago the bank had net impaired loans (gross impaired loans less the allowance for credit losses) of \$103 million. The net impaired loans ratio fell to (.04)% at October 31, 1998, from .06% a year earlier.

The quality of the credit card portfolio remained relatively stable, with an over 90 day delinquency ratio of .83%, up only 3 basis points from October 31, 1997.



Continued improvement in net impaired loans



Credit card quality stable

Outlook

- The bank expects the slowing global and Canadian economies to result in somewhat higher impaired loans in 1999.

Provision for credit losses

The general provision was raised by \$100 million in 1998.

As shown in table 16 on page 45, this year's provision for credit losses was \$575 million, comprising specific provisions of \$555 million

(\$427 million domestic and \$128 million international), a \$100 million addition to the general provision and an \$80 million reversal of the country

risk provision. In 1997, the provision for credit losses was \$380 million, consisting of \$330 million of specific provisions (\$265 million domestic

and \$65 million international) and a \$50 million addition to the general provision.

The increase in domestic specific provisions relates

table 14 change in impaired loans

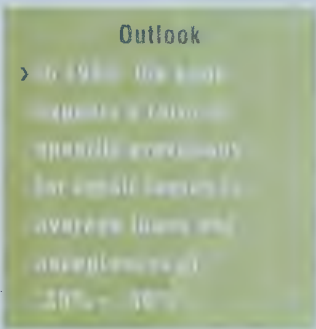
(\$ MILLIONS)	1998	1997	1996	1995	1994
Gross impaired loans at beginning of year	\$1,819	\$2,376	\$2,944	\$4,424	\$7,582
Additions	1,271	705	1,013	n/a	n/a
Reductions	(643)	(624)	(629)	n/a	n/a
Net additions (reductions)	628	81	384	(255)	(1,128)
Write-offs, including translation adjustments	(446)	(638)	(952)	(1,225)	(2,030)
Gross impaired loans at end of year	2,001	1,819	2,376	2,944	4,424
Specific provisions	(1,176)	(932)	(1,091)	(1,439)	(1,962)
Country risk provision (1)	(40)	(34)	(61)	(57)	(69)
Net impaired loans, excluding general provision	785	853	1,224	1,448	2,393
General provision	(850)	(750)	(700)	(300)	(300)
Net impaired loans at end of year	\$ (65)	\$ 103	\$ 524	\$1,148	\$2,093

(1) Shown net of that portion that is in excess of impaired LDC loans.

Provision for credit losses (continued)

largely to the forestry and trade finance accounts mentioned on page 42, and are reflected in the higher amounts this year for British Columbia and Ontario. As well, specific provisions for personal loans were up \$57 million, partially as a result of higher provisions for student loans. Specific provisions on credit cards fell by \$37 million, reflecting the \$2.6 billion of credit card securitizations. The increase internationally relates to Asia and also to Europe, where the bank had recorded substantial recoveries in 1997.

The provision for credit losses represented .32% of average loans and bankers' acceptances this year. Although it was above the bank's .25% objective for 1998, it remains below the medium-term target range of .35% – .45%.



Allowance for credit losses

The allowance for credit losses was \$2.1 billion at year end, as shown in table 17 on page 46.

As shown in Note 5 on page 73, the allowance for credit losses consisted of \$1,176 million of specific provisions, an \$850 million general provision and a \$40 million country risk provision.

Specific provisions in the allowance for credit losses rose by \$244 million as \$555 million of specific provisions charged to income in 1998 were partially offset by write-offs. The country risk provision dropped by almost \$400 million, reflecting the sale of \$976 million of LDC Brady bonds this year. The general provision was up \$100 million.

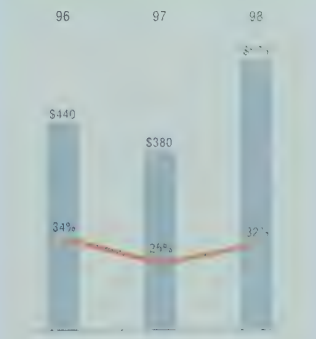
During the year, the bank increased the general provi-

sion by \$100 million based on an analysis of overall economic conditions and impaired loan levels and average loss trends within individual portfolios. At its current level of \$850 million, the general provision is considered to be at the high end of the appropriate range at this point in the economic cycle.

As described on page 14, the bank expects that the economy will continue to grow in 1999, but at a slower pace than experienced during the past few years. As economic growth slows, the general provision could increase in the short term, reflecting some deterioration

in credit quality. Also, management's ability to identify individual impaired loans will increase, which will lead to higher specific provisions. However, as the magnitude and length of an economic slowdown increases, the amount of unidentified losses in the portfolio will eventually decline, as will the required level of the general provision.

The Office of the Superintendent of Financial Institutions Canada (OSFI) has recently issued expanded guidance concerning general provisions for credit losses. In 1999, OSFI intends to introduce assessment criteria in respect of general provisions



PROVISION FOR CREDIT LOSSES (\$ millions & % of average loans and acceptances)

Higher loss provisions

and this could lead to an increase in the amount of the bank's general provision.

The general provision currently amounts to .54% of risk-adjusted assets, up from .51% at the end of 1997.

As shown in Table 17 on page 46, the coverage ratio (the allowance for credit losses to gross impaired loans), excluding LDCs, was 103% compared to 94% in 1997.

table 15 impaired loans by geographic area and by type of business

(\$ MILLIONS)	1998		1997		1996	1995	1994
	GROSS	NET (1)	GROSS	NET (1)	NET (1)	NET (1)	NET (1)
Domestic							
Atlantic provinces.....	\$ 60	\$ 24	\$ 64	\$ 30	\$ 32	\$ 46	\$ 88
Quebec.....	261	142	378	185	320	173	265
Ontario.....	543	80	583	203	437	893	1,479
Prairie provinces.....	161	64	369	278	296	88	196
British Columbia.....	485	350	83	45	31	52	57
Total Domestic.....	1,510	660	1,477	741	1,116	1,252	2,085
Consisting of:							
Residential mortgages.....	166	116	166	114	123	167	179
Personal loans.....	217	61	153	61	40	41	66
	383	177	319	175	163	208	245
Business loans							
Commercial real estate.....	182	69	348	184	320	634	1,011
Small business.....	152	48	187	64	71	150	134
Agriculture.....	47	31	46	34	40	58	73
Other.....	746	335	577	284	522	202	622
	1,127	483	1,158	566	953	1,044	1,840
Total Domestic.....	1,510	660	1,477	741	1,116	1,252	2,085
International							
United States.....	18	15	42	24	2	21	145
Europe.....	59	24	43	21	35	115	97
Latin America.....	4	1	20	13	1	—	—
Caribbean.....	62	31	71	39	51	60	56
Asia.....	308	54	132	15	19	—	9
Australia and New Zealand.....	—	—	—	—	—	—	1
	451	125	308	112	108	196	308
LDC loans.....	40	—	34	—	—	—	—
Total International.....	491	125	342	112	108	196	308
Total before general provision.....	2,001	785	1,819	853	1,224	1,448	2,393
General provision.....	—	(850)	—	(750)	(700)	(300)	(300)
Total after general provision.....	\$2,001	\$ (65)	\$1,819	\$ 103	\$ 524	\$1,148	\$2,093
Total loans and acceptances							
Domestic							
Residential mortgages.....	\$ 56,387		\$ 52,782	\$ 47,549	\$ 44,564	\$ 43,525	
Personal loans.....	21,628		20,114	17,738	16,218	15,907	
Credit cards.....	1,945		2,324	3,522	3,435	3,321	
Business and government loans and acceptances.....	55,311		58,131	50,017	43,070	41,581	
	135,271		133,351	118,826	107,287	104,334	
International.....	40,603		33,477	24,388	18,590	17,257	
Total.....	\$175,874		\$166,828	\$143,214	\$125,877	\$121,591	
Net impaired loans as a percentage of related loans and acceptances							
Domestic							
Residential mortgages.....		.21 %		.22%	.26%	.37%	.41%
Personal loans.....		.28		.30	.23	.25	.41
Business and government loans and acceptances.....		.87		.97	1.91	2.42	4.43
		.49		.56	.94	1.17	2.00
International.....		.31		.33	.44	1.05	1.78
Total before general provision.....		.45 %		.51%	.85%	1.15%	1.97%
Total after general provision.....		(.04)%		.06%	.37%	.91%	1.72%

(1) Net of allowance for credit losses.

table 16 provision for credit losses by geographic area and by type of business

(\$ MILLIONS)	1998	1997	1996	1995	1994
Provision for credit losses					
Domestic					
Specific provisions					
Atlantic provinces.....	\$ 35	\$ 37	\$ 34	\$ 37	\$ 56
Quebec.....	63	149	165	60	189
Ontario.....	144	13	61	341	855
Prairie provinces.....	53	29	83	34	(36)
British Columbia.....	132	37	(3)	12	(28)
Total Domestic	427	265	340	484	1,036
Consisting of:					
Residential mortgages.....	9	12	29	43	21
Personal loans.....	171	114	95	123	153
Credit cards.....	28	65	76	63	53
	208	191	200	229	227
Business loans					
Commercial real estate.....	(30)	(78)	(74)	73	362
Small business.....	54	69	89	101	184
Agriculture.....	4	1	(5)	1	(2)
Other.....	191	82	130	80	265
	219	74	140	255	809
Total Domestic	427	265	340	484	1,036
International					
Specific provisions					
United States.....	(7)	(8)	(14)	71	22
Europe.....	10	(24)	(22)	(6)	(1)
Latin America.....	(2)	7	—	2	2
Caribbean.....	3	7	2	26	14
Asia.....	124	83	34	3	(3)
Australia and New Zealand.....	—	—	—	—	—
	128	65	—	96	34
Country risk provision.....	(80)	—	(300)	—	—
Total International	48	65	(300)	96	34
Total before general provision	475	330	40	580	1,070
General provision.....	100	50	400	—	(250)
Total after general provision	\$575	\$380	\$440	\$580	\$ 820
Average loans and acceptances					
Domestic					
Residential mortgages.....	\$ 54,268	\$ 50,070	\$ 45,810	\$ 43,736	\$ 43,358
Personal loans.....	22,368	19,481	16,582	15,902	15,809
Credit cards.....	2,009	3,530	3,447	3,371	2,906
Business and government loans and acceptances.....	58,574	51,458	42,519	40,518	42,719
	137,219	124,539	108,358	103,527	104,792
International	40,765	29,873	22,020	17,932	16,949
Total	\$177,984	\$154,412	\$130,378	\$121,459	\$121,741
Provision for credit losses as a percentage of related average loans and acceptances					
Domestic					
Residential mortgages.....	.02%	.02%	.06%	.10%	.05%
Personal loans.....	.76	.59	.57	.77	.97
Credit cards.....	1.39	1.84	2.20	1.87	1.82
Business and government loans and acceptances.....	.37	.14	.33	.63	1.89
	.31	.21	.31	.47	.99
International	.12	.22	(1.36)	.54	.20
Total, including general provision	.32%	.25%	.34%	.48%	.67%

table 17 allowance for credit losses

(\$ MILLIONS)	1998	1997	1996	1995	1994
Allowance at beginning of year.....	\$2,118	\$2,235	\$2,669	\$3,202	\$4,324
Provision for credit losses.....	575	380	440	580	820
Write-offs					
Domestic					
Residential mortgages.....	(17)	(34)	(46)	(29)	(44)
Personal loans.....	(163)	(138)	(133)	(134)	(152)
Credit cards.....	(52)	(98)	(104)	(90)	(82)
Business loans and acceptances.....	(250)	(361)	(542)	(839)	(1,499)
	(482)	(631)	(825)	(1,092)	(1,777)
International excluding LDCs.....	(29)	(28)	(124)	(125)	(109)
LDC exposures.....	(325)	(10)	(186)	—	(181)
	(836)	(669)	(1,135)	(1,217)	(2,067)
Recoveries					
Domestic					
Residential mortgages.....	6	9	11	—	1
Personal loans.....	26	21	21	18	17
Credit cards.....	24	32	28	26	28
Business loans and acceptances.....	80	62	65	58	42
	136	124	125	102	88
International.....	8	17	9	10	—
	144	141	134	112	88
Net write-offs.....	(692)	(528)	(1,001)	(1,105)	(1,979)
Other adjustments.....	65	31	127	(8)	37
Allowance at end of year.....	\$2,066	\$2,118	\$2,235	\$2,669	\$3,202
Net write-offs (excluding LDCs) as a percentage of average loans and acceptances.....	.21%	.34%	.63%	.91%	1.48%
Net write-offs as a percentage of average loans and acceptances.....	.39%	.34%	.77%	.91%	1.63%
Domestic allowance					
Residential mortgages.....	\$ 50	\$ 52	\$ 65	\$ 44	\$ 23
Personal loans.....	156	92	77	90	84
Business loans and acceptances.....	644	592	809	1,053	1,593
	850	736	951	1,187	1,700
International allowance.....	366	632	584	1,182	1,202
	1,216	1,368	1,535	2,369	2,902
General provision.....	850	750	700	300	300
Total allowance.....	\$2,066	\$2,118	\$2,235	\$2,669	\$3,202
Allowance for credit losses as a percentage of total loans and acceptances.....	1.2%	1.3%	1.6%	2.1%	2.6%
Allowance for credit losses as a percentage of gross impaired loans (coverage ratio)					
Domestic					
Residential mortgages.....	30%	31%	35%	21%	11%
Personal loans.....	72	60	66	69	56
Business and government loans and acceptances.....	57	51	46	50	46
Total excluding general provision.....	56	50	46	49	45
International excluding LDCs and general provision.....	72	64	56	56	46
Total excluding LDCs.....	103%	94%	77%	60%	52%

strategic priority

Balance sheet and capital management

The bank is committed to maintaining strong capital ratios through continued solid internal capital generation, the issuance of subordinated debentures and preferred shares when appropriate, and controlled growth in risk-adjusted assets, while at the same time seeking opportunities to profitably grow the balance sheet.

Highlights

- › Residential mortgages and personal loans up by 7% and 8%, respectively
- › Internally generated capital of \$1.1 billion
- › Surpassed capital ratio targets
- › Issued \$500 million of subordinated debentures and \$300 million of non-cumulative preferred shares
- › Acquired \$1.1 billion of credit card loans, sold \$1.6 billion of mortgage-backed securities and totaled \$1.2 billion of residential mortgages

Asset growth

Consumer loan growth remained strong in 1998.

As shown in table 18, total loans excluding reverse repurchase agreements rose by 6%, with residential mortgages and personal loans showing higher

increases. Despite the sale of \$1.6 billion of securitized residential mortgages, mortgage balances grew 7% as low interest rates continued to stimulate

demand for housing. Were it not for this sale of mortgage-backed securities, residential mortgages would have risen by 10% from a year ago, reflect-

ing the bank's emphasis on growing its consumer loan portfolios.

Personal loans were up 9%, with student loans up 18%, personal demand loans 12% higher and consumer installment loans up 4%.

The bank achieved its objective of increasing market shares for residential mortgages and personal loans. Market shares, among all financial institutions in Canada, rose to 14.9% from 14.3% for residential mortgages and increased to 16.0% from 15.7% for personal loans.

Credit card balances fell due to a \$1.1 billion credit card securitization this year. Without this securitization, credit cards would have been up \$720 million.

table 18 asset growth

	1998		1997	
	(\$ MILLIONS)	%	(\$ MILLIONS)	%
Total assets	\$274,399		\$244,774	
Components of growth over prior year:				
Loans				
Residential mortgages (1)	\$ 3,703	7%	\$ 5,260	11%
Personal	1,811	9	2,403	13
Credit cards (2)	(379)	(16)	(1,198)	(34)
Business and government	2,587	4	6,815	13
	7,722	6	13,280	11
Reverse repurchase agreements	1,265	7	7,196	63
Loans and reverse repurchase agreements	8,987	6	20,476	15
Securities	8,362	25	(10,453)	(24)
Cash resources	(4,997)	(23)	(2,175)	(9)
Customers' liability under acceptances	59	1	3,138	42
Other	17,214	73	2,290	11
Total change over prior year	\$ 29,625	12%	\$ 13,276	6%

(1) Reflects the sale of \$1.6 billion (1997 - mil) of securitized mortgages.

(2) Reflects \$1.1 billion (1997 - \$1.5 billion) of securitized credit cards.

Balance sheet and capital management (continued)

Asset growth (continued)

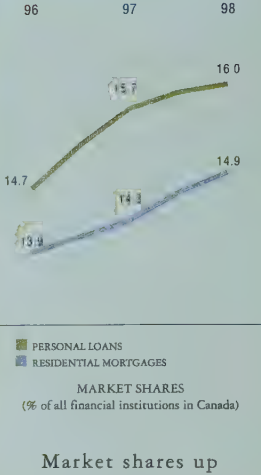
Business and government loans were up 4%, with loans to small and medium-sized enterprises, including agriculture accounts, up by 12% during the year to \$14.8 billion.

Cash resources were reduced, while holdings of securities increased, largely in equities in the trading portfolio, due to increased activity in the global equity derivatives group.

Other assets were up mostly due to a weakening of the Canadian dollar against other major currencies which affected the value of the bank's foreign exchange derivative contracts.

Outlook

> The bank expects loan growth to moderate somewhat in 1999, given its expectations of slowing Canadian economic growth.



Deposit growth

Deposits increased due to strong growth in business and government deposits.

As shown in table 19, deposits increased 4%, with strong growth in business and government deposits more than offsetting lower deposits by banks. The increase in business and government deposits

reflected in part active marketing of term deposits. Deposits by individuals showed no increase over a year ago, as strong financial markets and low interest rates earlier this year had encouraged clients

to shift their deposits to investment products. In the fourth quarter, however, deposits by individuals had risen by 2% over the previous quarter.

table 19 deposit growth

	1998		1997	
	(\$ MILLIONS)	%	(\$ MILLIONS)	%
Total deposits	\$180,005		\$173,229	
Components of growth over prior year:				
Personal	\$ (196)	—%	\$ (4,668)	(5)%
Business and government	11,739	18	16,569	35
Bank	(4,767)	(21)	(489)	(2)
Total change over prior year	\$ 6,776	4%	\$ 11,412	7%

Outlook

> The bank expects to continue managing its funding mix and offsetting the growth in its funding requirements by focusing on overall balance sheet management.

Capital management

Capital management is an important objective for Royal Bank. It requires balancing the desires for stronger, competitive capital ratios and for maintaining high credit ratings with the need to also provide solid returns to shareholders. In striving for this balance, the bank considers expected levels of risk-adjusted assets and balance sheet assets, future investment plans and the costs and terms of existing capital issues.

In addition to generating \$1.1 billion of capital internally, the bank took several other steps, detailed in table 20 below, to better manage its capital position.

First, the bank issued \$500 million of subordinated debentures in November 1997 for inclusion in Tier 2 capital.

Second, the bank issued \$300 million of non-cumulative First Preferred Shares Series N for inclusion in Tier 1 capital.

Third, the bank exchanged six series of subordinated debentures for an equal principal amount of senior notes, while Royal Trust Corporation

of Canada exchanged two series of subordinated debentures for an equal principal amount of guaranteed investment certificates. Debentures exchanged totalled \$719 million. This reduced Tier 2 capital by \$280 million.

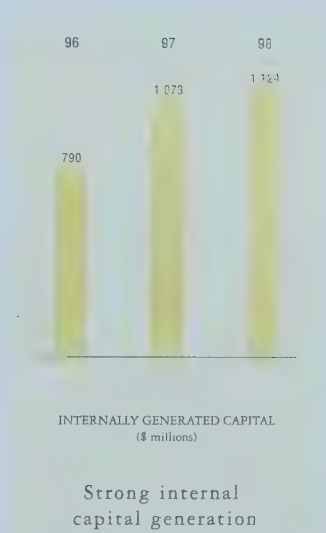


table 20 capital market activity

Issues of subordinated debentures (1)	
November 1997	➤ \$400 million at 5.40% maturing September 3, 2007
November 1997	➤ \$100 million at 5.45% maturing September 3, 2008
Conversions of subordinated debentures	
September 1998	➤ The holders of six series of subordinated debentures were offered the right to exchange their holdings for an equal principal amount of senior notes of the bank. The amount exchanged was \$524 million resulting in a decrease in Tier 2 regulatory capital of \$280 million.
October 1998	➤ The holders of two series of Royal Trust Corporation of Canada subordinated debentures were offered the right to exchange their holdings for an equal principal amount of guaranteed investment certificates. The amount exchanged was \$195 million with no effect on Tier 2 capital.
Issue of preferred shares (2)	
April 1998	➤ The bank issued 12,000,000 non-cumulative First Preferred Shares Series N for \$300 million.
Other activity	
April 1998	➤ Increased the Euro-Medium Term Note program for the issuance of both senior and subordinated debt instruments to U.S. \$6 billion from U.S. \$3 billion.
Post-year end	
November 1998	➤ The bank issued 4.8 million common shares for \$170 million in exchange for virtually all of the Class B shares originally issued by its wholly-owned subsidiary, Royal Bank DS Holding Inc., for the acquisition of Richardson Greenshields Limited on November 1, 1996.
November 1998	➤ The bank, through a wholly-owned subsidiary, initiated a process which will result in the acquisition of the outstanding participating preferred shares of RBC Dominion Securities Limited held by certain key employees for \$180 million. The acquisition will have an effective date of November 1, 1998.

The bank's risk-adjusted assets in 1998 were affected by several factors. First, on January 1, 1998, the bank adopted market risk guidelines issued by the Office of the Superintendent of Financial Institutions Canada (OSFI) consistent with the international standards agreed upon by the Bank for International Settlements (BIS). The market risk amendment initially resulted in a \$4.9 billion reduction in risk-adjusted assets, due to changes to the treatment of the bank's trading portfolio. Second, in April 1998, OSFI approved the reduction of risk

(1) Further information relating to these issuances can be found in Note 10 on page 75.
(2) Further information relating to this issuance can be found in Note 11 on page 77.

Balance sheet and capital management (continued)

Capital management (continued)

weightings for appropriately supervised OECD incorporated securities firms to 20% from 100%, thereby initially lowering the bank's risk-adjusted assets by \$2.6 billion.	\$1.1 billion of credit card receivables and the purchase of insurance on \$3.2 billion of residential mortgages.	As shown on the balance sheet on page 64, total capital funds (comprising shareholders' equity and subordinated debentures) were \$16.0 billion at October 31, 1998. This represents an increase of \$1.4 billion or 9% as outlined in Table 21 on page 51.	The bank considers common equity to risk-adjusted assets to be an important measure of capital strength. This ratio was 6.2% at October 31, 1998, up from 5.8% in 1997.
Risk-adjusted assets were also lowered by \$2.6 billion through the securitization of	Offsetting these declines were growth in business volumes and the impact of a weakening Canadian dollar against other major currencies.		

Regulatory capital

The primary measures of regulatory capital strength for Canadian banks are the risk-adjusted capital ratios developed pursuant to guidelines issued by OSFI based on standards issued by the BIS.

Consistent with these guidelines, total regulatory capital, which differs from capital recorded on the balance sheet, is allocated into two tiers. Tier 1 capital comprises the more permanent form of capital. The components of Tier 1 and Tier 2 capital are shown in table 22 on page 51.

Regulatory capital ratios are calculated by dividing Tier 1 and Total capital by risk-adjusted assets. Risk-adjusted assets are determined by applying risk weights to balance sheet assets and off-balance sheet financial instruments according to the relative credit risk of the counterparty. The predominant weighting for each balance sheet asset and off-balance sheet financial instrument is provided on table 23 on page 52.

The bank's capital policy is to remain well capitalized so as to provide a safety net for the variety of risks that the bank is exposed to in the conduct of its business. To be classified as well capitalized, OSFI has recommended that a bank's Tier 1 and Total capital ratios must meet or exceed 7% and 10% respectively. At October 31, 1998, the bank's Tier 1 and Total capital ratios were 7.4% and 10.5% respectively, compared to 6.8% and 10.0% in 1997. The increase in the Tier 1 capital ratio largely reflected internal capital generation and the issuance of \$300 million of preferred shares mentioned on page 49. The higher Total capital ratio also stemmed from the net impact of debenture financing and debenture conversion to term notes, as well as the addition of \$100 million to the general provision in 1998.

Bank regulators in the United States require a deduction from Tier 1 capital for the amount of deferred tax assets that will not be realized within 1 year. The bank has calculated its capital ratios in accordance with U.S. requirements as if it were able to file consolidated tax returns, as is allowed in the United States. Accordingly, the deferred tax amount deducted from Tier 1 capital was \$570 million.

Using the U.S. definitions of Tier 1 and Tier 2 capital, the bank's Tier 1 and Total capital ratios were 7.0% and 10.3%, respectively, at October 31, 1998, compared to 6.5% and 9.9% in 1997.

table 21 capital formation

(\$ MILLIONS)	1998	1997	1996	1995	1994
Internally generated capital					
Net income	\$1,824	\$1,679	\$1,430	\$1,262	\$1,169
Amounts credited (charged) to retained earnings	(12)	(6)	(78)	(8)	4
Capital from operations	1,812	1,673	1,352	1,254	1,173
Dividends	(688)	(600)	(562)	(535)	(532)
	1,124	1,073	790	719	641
External financing					
Subordinated debentures	(140)	625	74	47	71
Preferred stock	360	32	(238)	(276)	18
Common stock	18	(129)	(170)	—	—
	238	528	(334)	(229)	89
Total increase in capital	\$1,362	\$1,601	\$ 456	\$ 490	\$ 730

table 22 capital ratios

(\$ MILLIONS)	1998	1997	1996	1995	1994
Tier 1 capital					
Common shareholders' equity	\$ 9,748	\$ 8,606	\$ 7,662	\$ 7,042	\$ 6,323
Non-cumulative preferred shares	2,144	1,784	1,602	1,605	1,609
Non-controlling interest in subsidiaries	247	283	108	107	93
Less: goodwill	(546)	(600)	(335)	(333)	(365)
	11,593	10,073	9,037	8,421	7,660
Tier 2 capital					
Permanent preferred shares and subordinated debentures	463	423	551	788	1,063
Non-permanent subordinated debentures (1)	3,419	3,309	2,495	2,708	2,806
General provision	850	750	—	—	—
Non-controlling interest in subsidiaries	172	166	—	—	—
	4,904	4,648	3,046	3,496	3,869
Less: substantial investments and investment in associated corporations	(17)	(16)	(14)	(4)	(4)
Total capital	\$ 16,480	\$14,705	\$12,069	\$11,913	\$11,525
Risk-adjusted assets					
Balance sheet assets (2)	\$116,707	\$115,798	\$102,856	\$ 92,129	\$ 93,215
Off-balance sheet financial instruments	37,477	31,874	25,307	29,221	26,943
General market risk (2)	2,880	—	—	—	—
Total risk-adjusted assets	\$157,064	\$147,672	\$128,163	\$121,350	\$120,158
Common shareholders' equity to risk-adjusted assets (3)	6.2%	5.8%	6.0%	5.8%	5.3%
Tier 1 capital to risk-adjusted assets (3)	7.4%	6.8%	7.0%	6.9%	6.4%
Total capital to risk-adjusted assets (3)	10.5%	10.0%	9.4%	9.8%	9.6%

(1) Subordinated debentures which are within five years of maturity are subject to straight-line amortization to zero during their remaining term and, accordingly, are included above at their amortized value.

(2) Reflects new guidelines on market risk issued by the Superintendent of Financial Institutions Canada which took effect January 1, 1998.

(3) On November 1, 1998, the bank issued 4.8 million common shares for \$170 million in exchange for virtually all of the Class B shares originally issued by its wholly-owned subsidiary, Royal Bank DS Holding Inc., for the acquisition of Richardson Greenshields Limited on November 1, 1996. The effect of this transaction increased Tier 1 capital and decreased Tier 2 capital by \$170 million. Also, the bank initiated a process which will result in the acquisition of all outstanding participating preferred shares of RBC Dominion Securities Limited held by certain key employees for \$180 million. The acquisition will reduce Tier 1 capital by this amount and will have an effective date of November 1, 1998. Had these two transactions taken place as at October 31, 1998, the proforma capital ratios would have been: common shareholders' equity to risk-adjusted assets – 6.3%; Tier 1 capital ratio – 7.4%; and Total capital ratio – 10.4%.

table 23 risk-adjusted assets

(\$ MILLIONS)						
Balance sheet assets	BALANCE SHEET AMOUNT	RISK WEIGHT (1)	RISK-ADJUSTED BALANCE		1998	1997
Cash resources	\$ 16,395	20%	\$ 2,551	\$ 4,016		
Securities (2)						
Issued or guaranteed by Canadian or other OECD governments	20,954	0%	44	23		
Other	20,445	100%	8,340	10,230		
Residential mortgages						
Insured	30,289	0%	324	222		
Conventional	26,730	50%	14,337	14,480		
Other loans and acceptances						
Issued or guaranteed by Canadian or other OECD governments	11,510	0%	837	807		
Other	107,345	100%	84,763	80,194		
Other assets	40,731	0%	5,511	5,826		
	<u>\$274,399</u>		<u>\$116,707</u>	<u>\$115,798</u>		
Off-balance sheet financial instruments						
	CONTRACT AMOUNT	CREDIT - CONVERSION FACTOR	CREDIT EQUIVALENT AMOUNT			
Credit instruments						
Guarantees and standby letters of credit						
Financial	\$ 10,418	100%	\$ 10,418	100%	\$ 8,341	\$ 8,700
Non-financial	2,882	50%	1,441	100%	1,402	1,256
Securities lending	22,602	100%	22,602	0%	397	730
Documentary and commercial letters of credit	796	20%	159	100%	146	196
Commitments to extend credit:						
Original term to maturity of one year or less	80,948	0%	—	0%	—	—
Original term to maturity of more than one year	42,119	50%	21,060	100%	19,979	15,950
Note issuance/revolving underwriting facilities	110	50%	55	100%	54	112
	<u>\$159,875</u>		<u>\$ 55,735</u>		<u>\$ 30,319</u>	<u>\$ 26,944</u>
Derivatives (3)						
	NOTIONAL AMOUNT	GROSS POSITIVE REPLACEMENT COST (4)	CREDIT - EQUIVALENT AMOUNT (5)			
Interest rate contracts						
Forward rate agreements	\$ 67,698	\$ 55	\$ 57	20%	\$ 14	\$ 8
Swaps	444,610	6,717	8,706	20%	2,340	1,793
Options purchased	47,212	360	584	20%	172	107
	<u>559,520</u>	<u>7,132</u>	<u>9,347</u>		<u>2,526</u>	<u>1,908</u>
Foreign exchange contracts						
Forward contracts	718,205	20,487	27,542	20%	6,829	3,668
Swaps	38,015	1,408	3,126	20%	668	458
Options purchased	57,956	2,017	2,675	20%	700	377
	<u>814,176</u>	<u>23,912</u>	<u>33,343</u>		<u>8,197</u>	<u>4,503</u>
Other contracts (6)	4,509	456	708	50%	336	188
Total derivatives before netting	<u>\$1,378,205</u>	<u>31,500</u>	<u>43,398</u>		<u>11,059</u>	<u>6,599</u>
Impact of master netting agreements		(13,526)	(16,764)		(3,901)	(1,669)
Total derivatives after netting		<u>\$17,974</u>	<u>\$26,634</u>		<u>\$ 7,158</u>	<u>\$ 4,930</u>
Total off-balance sheet financial instruments			<u>\$82,369</u>		<u>\$ 37,477</u>	<u>\$ 31,874</u>
General market risk (2)					2,880	—
Total risk-adjusted assets					<u>\$157,064</u>	<u>\$147,672</u>

(1) Represents the most predominant weighting for that category.

(2) Reflects new guidelines on market risk issued by the Superintendent of Financial Institutions Canada which took effect January 1, 1998. This guideline primarily affects trading account securities which were previously risk-weighted at 100%.

(3) Futures and some purchased options are traded on exchanges and are subject to daily margin requirements. Such instruments are excluded from the calculation of risk-adjusted assets as they are deemed to have no additional credit risk.

(4) Represents the total current replacement value of all outstanding contracts in a gain position.

(5) Credit-equivalent amounts for derivatives consist of (i) the total positive replacement value of all outstanding contracts, and (ii) an amount for potential future credit exposure.

(6) Comprised of precious metals, commodity and equity-linked contracts.

Risk management

Overview

Sound risk management is essential for generating consistent growth in earnings.

Royal Bank's risk professionals work in full partnership with the bank's businesses, functions and geographic units to identify, assess, mitigate and monitor risk. To meet the challenges of a dynamic marketplace and to become full partners in business planning and decision making, the risk management function has undergone significant changes over the past several years.

Risk Management is independent from the business units and it reports directly to the Chief Executive Officer. A committee structure ensures independent risk oversight. The Risk Policy Committee of the Board of Directors (the Board) reviews major lending, investment and risk policies and standards and reviews trends in portfolio quality. The Group Risk Committee reviews overall risk policies and strategies. It is chaired by the Chief Executive Officer and its members include the bank's Vice-Chairmen, the Executive Vice-President & Chief Risk Officer, the Executive Vice-President & Chief Information Officer and the Executive Vice-President & Chief Financial Officer.

Reporting to the Group Risk Committee are the Risk Management Committee (RMC) and the Asset and Liability Committee (ALCO). RMC formulates policies, processes and procedures relating to all risks in the framework, and reviews exposures and strategies for major industries and countries. ALCO oversees the bank's liquidity risk, interest rate risk and foreign exchange rate risk management in the banking book. Significant RMC and ALCO policies are reviewed by the Group Risk Committee and approved by either the Risk Policy Committee of the Board or the Audit Committee of the Board.

The bank introduced a risk framework in 1996, as the primary vehicle to assess risks across the group. It classifies risks in two broad classes: (1) risks where the bank exercises direct control by formulating strategies and policies including credit, market, liquidity, technology, operational and people, and (2) risks that the bank can influence but not control, such as reputational, competitive, regulatory and systemic.



During the year, most business units were reviewed in accordance with this framework to gain a more in-depth understanding of the sources of risk and effective risk mitigation techniques as well as overall risk management practices. A significant advancement in enterprise-wide risk management was the development of a group-wide portfolio management strategy which seeks to further integrate credit, market and operational risks with a view to optimizing the risk/reward balance and improving the allocation of capital among business units.

Credit risk management

The management of credit risk exposures is governed by a number of principles.

These include:

- › effective diversification across clients, industries, terms, products and geographies,
- › maintenance of portfolio quality standards,
- › credit pricing to ensure the bank is adequately compensated for risk,
- › consistent measures across different businesses and products.

As shown in table 25 on page 56, the bank has rebalanced its industry

exposures in the past few years. The real estate exposure was reduced from 4.8% in 1994 to 1.8% in 1998, and its loans to the forest products sector from 2.5% to 1.4% during that period. Excluding short-term, fully secured credit instruments to financial institutions, no sector accounted for more than 5.3% of total loans and acceptances at the end of 1998.

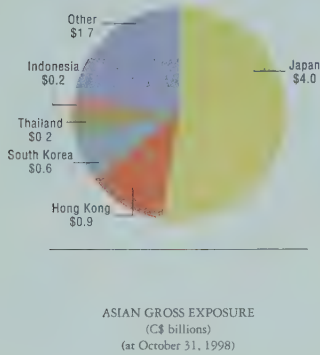
As shown in table 24 on page 55, the bank's earning assets in Asia at September 30, 1998 were \$8.3 billion

or 3.5% of total earning assets. However, by October 31, 1998 the bank's exposure had declined considerably, such that total exposure (including off-balance sheet items and derivatives) was \$7.6 billion on a gross basis and \$7.3 billion net of specific provisions, the latter down \$3.4 billion from a year earlier and \$2.0 billion from the previous quarter. The majority of the bank's exposure is short term. In addition, there is little real estate or derivatives exposure in Asia.

Risk management (continued)

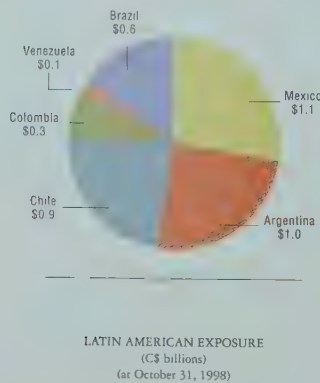
Credit risk management (continued)

Total gross Asian exposure (before deducting the related allowance for credit losses) at October 31, 1998, by major country, is shown in the chart below.



The bank's earning assets in Latin America at September 30, 1998 were \$3.7 billion, as shown in table 24 on page 55. However, total exposure (including off-balance sheet items) at October 31, 1998 was \$4.0 billion. Two-thirds of the exposure is to corporations and one-third to banks. The exposure is heavily weighted to top-tier accounts, many of them subsidiaries of foreign companies. The majority of the exposure has terms of under one year.

A break-out of the total Latin American exposure at October 31, 1998, is provided in the chart below.



The total exposure to Russia is \$54 million, net of specific provisions of \$16 million. The exposure is primarily to top-tier domestic exporters of commodities, with risk mitigated by receipt of payments from offshore buyers of the commodities.

With respect to exposures to hedge funds, the bank follows a focused, highly selective strategy with a small number of counterparties. The exposure (net of collateral) has ranged between U.S. \$5 and U.S. \$10 million since mid-August.

The bank has developed detailed environmental risk assessment criteria and management procedures with respect to loan evaluation, and continues to provide extensive training on their use to all account managers. Recognizing that the bank must conduct its own operations in compliance with environmental laws, formal review systems and procedures are in place, within real estate operations, to ensure such compliance. As well, efforts to conserve energy, to reduce, reuse and recycle paper and other materials, and to manage waste disposal are ongoing.

Personal financial services

Personal financial services continues to develop new products, expand delivery channels, and capitalize on emerging technologies to meet customer needs. At the same time, the bank is experiencing strong growth in personal loans and residential mortgages. As a result, risk has become more complex, diverse and dynamic. To ensure that credit risks are appropriately mitigated, credit scoring systems and statistical methods of analyzing borrower characteristics have been further strengthened. As well, credit processes have been streamlined to further enhance customer service and performance.

Card services

A dedicated team of risk professionals is developing risk strategies and policies for the credit card business. This team is working with the business to identify opportunities to mitigate risks and to ensure that quality standards are maintained.

Business banking

All markets within business banking, including commercial, agriculture, and small/medium enterprises, have experienced strong growth nationally. Although we have experienced strong growth in all markets and portfolio quality has continued to improve, Risk Management is further strengthening watchlist management and early warning systems through training initiatives and the development of more effective processes.

Corporate and investment banking

The corporate banking client base is selected according to a strategic process focused primarily on identifying industries in which the bank intends to hold risk positions. Sectoral limits are approved by the RMC and individual counterparty limits are established through forward-looking strategies based on analysis of the client's competitive position in the industry and creditworthiness. Periodic formal reviews ensure that new client opportunities are identified and that the existing customer base maintains its risk profile. During the year, continued progress was made in the use of portfolio modeling techniques and at managing risk at the portfolio level across transactions and relationships.

table 24 earning assets by location of ultimate risk (net of allowance for credit losses) ⁽¹⁾

AS AT SEPTEMBER 30 (\$ MILLIONS)	1998	1997	1996	1995	1994	1998	1994
Canada	\$173,096	\$152,984	\$135,629	\$126,677	\$123,867	72.6%	77.9%
United States	28,316	22,046	23,083	14,651	13,961	11.9	8.8
Europe							
United Kingdom.....	9,121	10,289	6,738	6,287	5,896	3.8	3.7
France.....	2,428	3,160	2,769	1,477	1,506	1.0	1.0
Germany.....	3,763	2,482	3,026	2,207	1,768	1.6	1.1
Switzerland.....	980	1,031	928	560	1,191	.4	.7
Other.....	5,541	3,885	3,761	2,205	2,469	2.3	1.6
	21,833	20,847	17,222	12,736	12,830	9.1	8.1
Latin America							
Argentina.....	988	1,196	821	599	442	.4	.3
Brazil.....	623	1,279	1,550	1,231	1,231	.3	.8
Chile.....	769	504	358	225	187	.3	.1
Columbia.....	363	302	168	130	116	.2	—
Mexico.....	858	1,216	1,048	580	741	.4	.5
Venezuela.....	38	27	140	131	170	—	.1
Other.....	45	80	67	20	7	—	—
	3,684	4,604	4,152	2,916	2,894	1.6	1.8
Caribbean							
Bahamas.....	1,130	1,302	1,070	1,033	962	.5	.6
Other.....	1,593	1,652	1,534	1,666	1,424	.7	.9
	2,723	2,954	2,604	2,699	2,386	1.2	1.5
Asia							
Japan.....	5,698	5,888	3,905	2,725	2,060	2.4	1.3
Hong Kong.....	946	1,152	848	581	518	.4	.3
South Korea.....	430	704	391	193	144	.2	.1
Singapore.....	437	718	904	427	502	.2	.3
Taiwan.....	531	603	570	497	393	.2	.3
China.....	40	284	377	378	304	—	.2
Other (2).....	253	769	442	436	227	.1	.1
	8,335	10,118	7,437	5,237	4,148	3.5	2.6
Australia and New Zealand	1,305	744	138	81	128	.5	.1
Country risk provision	(40)	(436)	(444)	(929)	(940)	—	(.6)
General provision	(850)	(750)	(700)	(300)	(300)	(.4)	(.2)
Total	\$238,402	\$213,111	\$189,121	\$163,768	\$158,974	100.0%	100.0%

(1) Earning assets refers to loans, securities, and deposits with other banks (including assets funded in local currencies). The location of ultimate risk is the country of origin of the borrower/issuer, or of another entity which has guaranteed performance on the exposure.

(2) Includes in 1998 Indonesia (\$15 million), Malaysia (\$28 million) and Thailand (\$160 million).

Operational risk management

For a business unit to achieve its objectives, it must effectively manage operational risk.

Operational risk is the risk of loss occurring from inadequate internal practices, policies, systems and controls, human error, fraud or management failure.

While operational risk can never be fully eliminated, the bank endeavors to minimize it by ensuring that the appropriate infrastructure, controls, systems and trained and competent people are in place throughout the bank. Segregation

of duties, delegation of authorities, effective training, performance management, communication of risk tolerance, risk monitoring and financial management and reporting are amongst the procedures used to manage operational risk. The bank also possesses back-up capabilities to support ongoing business operations in the event of adverse conditions. Key operational procedures are approved in

accordance with delegated authorities and maintained on an ongoing basis to reflect changes in the business environment.

A specialized group within Risk Management is in place to identify and leverage best industry practices in the identification, assessment and management of operational risk.

Risk management (continued)

table 25 loans and acceptances by industry and by location of ultimate risk (net of allowance for credit losses)

AS AT SEPTEMBER 30 (\$ MILLIONS)	1998	1997	1996	1995	1994	1998	1994
Consumer loans							
Residential mortgages	\$ 56,484	\$ 52,763	\$ 47,868	\$ 44,881	\$ 44,180	31.0%	36.2%
Personal loans	22,347	20,534	18,090	16,551	16,455	12.3	13.5
Credit cards	1,924	3,753	3,526	3,459	3,325	1.1	2.7
	<u>80,755</u>	<u>77,050</u>	<u>69,484</u>	<u>64,891</u>	<u>63,960</u>	<u>44.4</u>	<u>52.4</u>
Business and government loans and acceptances							
Financial services	16,261	13,982	10,651	11,083	9,737	8.9	8.0
Small business	9,662	7,898	7,114	6,938	6,707	5.3	5.5
Energy	8,352	8,558	3,675	3,670	4,018	4.6	3.3
Information technology and media	5,856	5,655	4,066	3,202	2,875	3.2	2.4
Consumer goods	5,444	4,718	4,574	1,516	998	3.0	.8
Agriculture	4,333	3,868	3,249	3,053	3,039	2.4	2.5
Industrial products	3,763	4,140	3,778	2,181	2,763	2.1	2.3
Transportation and environmental	3,753	3,137	2,502	2,330	2,359	2.1	1.9
Real estate	3,318	3,988	4,355	4,599	5,881	1.8	4.8
Holding and investment companies	3,179	2,466	1,978	1,703	2,107	1.7	1.7
Automotive	3,085	2,541	1,541	818	756	1.7	.6
Commercial mortgages	2,811	2,669	2,289	2,135	2,191	1.5	1.8
Forest products	2,463	2,702	1,522	1,596	3,056	1.4	2.5
Mining and metals	2,215	2,014	913	711	1,112	1.2	.9
Other	1,539	2,638	8,994	9,586	7,464	.9	6.0
	<u>76,034</u>	<u>70,974</u>	<u>61,201</u>	<u>55,121</u>	<u>55,063</u>	<u>41.8</u>	<u>45.0</u>
Assets purchased under reverse repurchase agreements	26,015	18,985	8,662	3,945	3,673	14.3	3.0
	<u>102,049</u>	<u>89,959</u>	<u>69,863</u>	<u>59,066</u>	<u>58,736</u>	<u>56.1</u>	<u>48.0</u>
Country risk provision (1)	(40)	(117)	(118)	(263)	(297)	—	(.2)
General provision	(850)	(750)	(700)	(300)	(300)	(.5)	(.2)
Total	<u>\$181,914</u>	<u>\$166,142</u>	<u>\$138,529</u>	<u>\$123,394</u>	<u>\$122,099</u>	<u>100%</u>	<u>100.0%</u>
Domestic							
Atlantic provinces	\$ 8,099	\$ 7,632	\$ 6,792	\$ 6,557	\$ 6,501	4.5%	5.3%
Quebec	15,197	14,871	13,588	13,382	13,197	8.4	10.8
Ontario	70,005	66,497	53,204	47,426	47,103	38.5	38.6
Prairie provinces	25,113	22,104	18,078	17,144	16,278	13.8	13.3
British Columbia	22,350	22,181	18,626	18,035	17,517	12.2	14.3
	<u>140,764</u>	<u>133,285</u>	<u>110,288</u>	<u>102,544</u>	<u>100,596</u>	<u>77.4</u>	<u>82.3</u>
International							
Canadian risk	2,000	1,358	1,319	1,445	1,519	1.1	1.2
United States	17,546	13,450	13,046	8,794	9,105	9.6	7.5
Europe	11,183	7,953	5,640	5,089	4,836	6.2	4.0
Latin America	3,468	3,006	2,456	1,581	2,969	1.9	2.4
Caribbean	1,747	1,749	1,876	1,660	1,374	1.0	1.1
Asia	5,154	5,554	4,704	2,799	2,214	2.8	1.8
Australia and New Zealand	942	654	18	45	83	.5	.1
Country risk provision (1)	(40)	(117)	(118)	(263)	(297)	—	(.2)
	<u>42,000</u>	<u>33,607</u>	<u>28,941</u>	<u>21,150</u>	<u>21,803</u>	<u>23.1</u>	<u>17.9</u>
	<u>182,764</u>	<u>166,892</u>	<u>139,229</u>	<u>123,694</u>	<u>122,399</u>	<u>100.5</u>	<u>100.2</u>
General provision	(850)	(750)	(700)	(300)	(300)	(.5)	(.2)
Total	<u>\$181,914</u>	<u>\$166,142</u>	<u>\$138,529</u>	<u>\$123,394</u>	<u>\$122,099</u>	<u>100%</u>	<u>100.0%</u>

(1) In 1997, the country risk provision was reduced by \$319 million (1996 — \$326 million; 1995 — \$666 million; 1994 — \$643 million) which was deducted from securities in respect of restructured collateralized bonds of less developed countries.

Market risk management

Market risk is the risk of loss that results from changes in interest rates, foreign exchange rates, equity prices and commodity prices.

The three main components of market risk for the bank are interest rate risk, foreign exchange rate risk and equity risk.

Interest rate risk

Interest rate risk is the potential adverse impact on the bank's earnings and economic value due to changes in interest rates. The key sources of interest rate risk to which the bank is exposed are repricing mismatch risk, basis risk and options risk. Repricing mismatch risk arises when there are mismatches or gaps in the amount of assets, liabilities and off-balance sheet instruments that mature or reprice in a given period primarily due to customers' differing term preferences. Basis risk arises when the differentials between various indices upon which the bank prices its products change. Options risk arises from the effect of interest rate movements and changes in volatilities on the market value of the options within the bank's portfolios.

Foreign exchange rate risk

Foreign exchange rate risk is the potential adverse impact on earnings and economic value due to currency rate movements. The bank's trading portfolios are exposed to foreign exchange rate risk in both the spot and forward foreign exchange markets and in the options markets. Spot foreign exchange risk arises when the total present value of assets in any currency does not equal the total present value of liabilities in that currency. Forward foreign exchange risk arises when, for a given currency, the maturity profile of forward purchases differs from the maturity profile of forward sales. Options risk arises from the effect of interest rate and exchange

rate movements and changes in volatilities on the market value of the options within the bank's portfolios.

The bank is also exposed to foreign exchange rate risk related to its net investment in foreign subsidiaries. The bank uses foreign exchange forwards and other derivatives to manage this risk.

Equity risk

Equity risk is the potential adverse impact on the bank's earnings due to movements in individual equity prices or general movements in the value of the stock market. The bank is engaged in buying and selling stocks as a principal in its brokerage business. In addition, the bank's trading activities include providing tailored stock derivative transactions for its clients, as well as proprietary trading.

Market risk measures

The bank has established risk management policies and limits within which exposure to market risk is monitored and controlled. Market risk in the bank's trading portfolios is managed primarily through a Value-At-Risk ("VAR") methodology. Market risk relating to the bank's non-trading activities is monitored and managed through the use of other risk management tools, including scenario and gap analysis, as discussed later in this section under "Asset/liability management activities of the bank's non-trading portfolio" on page 58.

Trading activities

Market risk associated with trading activities is a result of market-making, positioning and sales and arbitrage activities in the foreign exchange, interest rate, equity and commodity markets.

The Risk Management – Trading group, which is independent of the trading function, oversees trading risks, and develops and implements comprehensive risk measures, policies and limits that are observed by each trading desk. The group is also responsible for the daily monitoring of global trading risk exposures against actual limits using a VAR methodology, assessing global risk/return trends and alerting senior management to adverse trends or positions.

VAR is a risk measurement concept which uses statistical models to estimate within a given level of confidence the maximum loss in market value that the bank would experience in its trading portfolios from an adverse one-day movement in market rates and prices.

From January 1, 1998, internationally active banks in G-10 countries have had to maintain regulatory capital to cover market risk. The bank has adopted a statistical approach for the measurement of market risk based on its internal models, and has received approval from the Office of the Superintendent of Financial Institutions (OSFI) for the use of such models in determining the regulatory capital requirements for general market risk.

Table 26 shows a global VAR by major risk class of \$18 million for the bank's combined trading activities at October 31, 1998. The benefits of diversification within the bank's trading portfolios are shown separately. The level of market risk to which the bank is exposed varies continually, reflecting market conditions, expectations of future price and market movements, and the composition of the trading portfolios. The actual daily trading loss experienced by the bank has not exceeded the VAR amount during fiscal 1998.

Risk management (continued)

Market risk management (continued)

The bank's VAR measure is based on a 99% confidence level, and is an estimate of the maximum potential trading loss in 99 days out of every 100 days. The bank also performs analysis on the potential trading losses due to stress events such as extreme changes in interest rates, foreign currency rates or the equities markets, as a supplementary control on its market risk exposure.

Management recognizes that VAR is not an absolute measure of market risk. Hence, VAR is supplemented with strategic and tactical limits, which control market liquidity risks, net position gap, term and volume for all products. A comprehensive market risk management framework ensures an appropriate diversification policy is adopted. Furthermore, operational limits apply to individual trading units to ensure the prudent management of each trading portfolio.

Asset/liability management activities of the bank's non-trading portfolio

Most banking activities, principally deposit taking and lending, expose the bank to market risk, primarily in the form of interest rate risk. The Corporate Treasury function actively manages and monitors the consolidated interest rate exposure for the non-trading functions

of the bank. In addition, it oversees a limited number of authorized units which manage their interest rate exposure at a decentralized level within established risk and term limits.

The goal is to achieve a balance between enhancing net interest income and reducing risk to earnings from adverse movements in interest rates. This goal is achieved by adjusting the bank's risk profile within predetermined limits and by positioning exposures taking into consideration the shape of the yield curve and expected changes in the level of interest rates.

The bank measures interest rate risk from both a current earnings and an economic value perspective. Net interest income risk measures the adverse impact on net interest income over the next twelve months from an immediate and sustained parallel movement in interest rates across all maturities. Economic value risk measures the adverse impact on the present value of both on and off-balance sheet instruments from an increase in interest rates. Economic value is the present value of all assets less the present value of all liabilities.

The bank has established limits relating to the maximum amount of net interest income risk and economic value

risk that it is willing to accept given a fixed change in interest rates.

The bank continues to upgrade its existing information framework to ensure it meets best practice standards in its asset/liability management reporting and analysis.

The primary analytical techniques used to measure and monitor interest rate risk are scenario and gap analysis.

Scenario analysis enables the bank to analyze interest rate risk under numerous economic and rate scenarios. It incorporates assumptions about pricing strategies, volume and mix of new business, changes in the level of interest rates, changes in the shape of the yield curve and other factors such as the impact of embedded options. Gap analysis is used as a complementary measure to scenario analysis and provides a tool for measuring exposure against limits at a specific point in time. The results of the scenario and gap analysis assist in determining the risk/return tradeoffs of potential hedging and investment strategies.

Note 17 on page 84 shows the bank's interest rate sensitivity position as at October 31, 1998 and 1997, as prescribed by the Canadian Institute of Chartered Accountants *section 3860: Financial Instruments – Disclosure and Presentation*. On and off-balance sheet assets and liabilities are reported in the table based on the earlier of their contractual repricing date or maturity date.

In managing the bank's interest rate risk, Corporate Treasury incorporates assumptions not included in the Contractual Repricing and Maturity Schedule in note 17. These assumptions, which are continually assessed, include expected repricing of trading instruments and certain loans and deposits. Products, which have neither a fixed repricing date

table 26 market risk measures – trading activities

(\$ MILLIONS)	1998	1997
Global VAR by major risk category (1)		
Foreign exchange	\$ 5	\$20
Interest rate	7	12
Equity	17	10
Impact of diversification	(11)	(27)
Global VAR	\$18	\$15
Global VAR – High	\$28	\$20
Global VAR – Low	\$15	\$ 7

(1) Amounts are presented on a pre-tax basis and represent one-day VAR at a 99% confidence level as at October 31.

table 27 market risk measures – non-trading activities

(\$ MILLIONS)	1998		1997	
	100 bp Increase	200 bp Increase	100 bp Increase	200 bp Increase
Economic value risk (1)				
Including options risk	350	703	340	665
Excluding options risk	288	579	276	536
Net interest income risk (1)				
Including options risk	79	219	41	81
Excluding options risk	82	228	49	97

(1) Amounts are presented on a pre-tax basis and represent declines in economic value and net interest income from changes in interest rates as at October 31.

or a fixed rate of interest, are adjusted for risk management purposes based upon an analysis of core balance behaviour and their expected term. Taking into account these assumptions on the consolidated Contractual Repricing and Maturity Schedule at October 31, 1998 would result in a change in the under-one-year gap from (\$12) billion to \$6 billion.

Table 27 presents the potential adverse impact on the bank's current earnings and economic value due to

changes in interest rates on the non-trading portfolio. These measures are based on the bank's interest rate sensitivity position at October 31, 1998, including all repricing assumptions, and are presented with and without the impact of embedded and outright options. These measures assume that no further hedging is undertaken and that all assets and liabilities reprice by the defined amounts.

The bank's domestic interest rate sensitivity position at October 31, 1998, including all repricing assumptions, reflects a view on future interest rate movements relative to the current yield curve. The gap positions have been managed recognising the temporary and unusual saucer shaped yield curve as at October 31, 1998. The bank has positioned itself to take advantage of its view that mid-term rates have nearly reached the low point in the cycle.

All interest rate risk measurements described in this section are based upon the bank's interest rate exposures at a specific time. The exposures change continually as a result of the bank's day-to-day business activities and its risk management initiatives.

Liquidity risk management

The objective of liquidity management is to ensure that the bank has the ability to generate sufficient cash or its equivalents either internally or externally, in a timely and cost-effective manner, to meet its commitments as they fall due.

Liquidity management is critical in protecting the bank's capital, maintaining market confidence and ensuring that functional needs can be met, including financial commitments and opportunities for profitable business expansion.

The bank's management of liquidity risk is consistent with its overall risk management framework. This framework includes limits which specify the minimum level of liquid assets to be held at all times and the maximum net outflow of funds for specified time

periods, particularly for key short-term time horizons. In addition, policies are also in place to ensure that the bank is able to meet potential pledging requirements that may arise.

Scenario analysis is performed on the assumed behavior of cash flows for assets and liabilities under varying conditions to assess funding requirements and is updated as needed to reflect changing conditions. Results of the analysis are used in refining limits and are provided to senior management to enable them to

monitor changes in liquidity and react appropriately to market developments on a timely basis.

The bank's liquidity management framework also incorporates liquidity contingency planning to assess the nature and volatility of funding sources and determining alternatives to these sources in the event of a problem. Contingency plans exist which would be activated to ensure funding commitments are met in the case of general market disruption or adverse economic conditions.

Risk management (continued)

Liquidity risk management (continued)

Differences in domestic and international environments require the bank to manage its liquidity in two main segments: the domestic Canadian dollar pool and the foreign currency pool, which includes Canadian dollars offshore. This reflects the fact that domestic and international environments differ in client base, nature of deposits, market share and regulatory environments.

Table 28 provides details of the bank's deposits. Deposits from Canadian consumers comprise 64% of the bank's Canadian dollar deposits, a decline from 66% in 1997. The continued low domestic interest rate environment has resulted in the current industry trend of the shift of consumer funds from deposits to investment products. At the same time, one of the major factors in the increase in Canadian dollar business and government deposits, as a percentage of total Canadian dollar deposits, to 34% in 1998 from 32% in 1997, has been active marketing of business and government deposits by the bank.

Foreign currency deposits are primarily deposits from large corporations and large foreign banks, including central banks. The increase in foreign currency business and government deposits was due to

active marketing of these deposits and a weakening of the Canadian dollar, which led to higher translated values for foreign currency deposits.

Wholesale funding accounts for a significant and increasing portion of the Canadian and foreign currency funding. The bank manages its liquidity with a view to increasing the diversification by type and country of origin of depositors, by term and through various locations and legal entities.

To offset lower personal deposit levels and increased loan demand during fiscal 1998, the bank took several steps to broaden its funding capacity. The bank increased its Canadian dollar and foreign currency wholesale funding by issuing \$2.1 billion euro medium-term notes and \$1.9 billion senior deposit notes, in addition to issuing \$500 million subordinated debentures as outlined in table 20 on page 49. The bank also sold \$1.6 billion of mortgage-backed securities and securitized \$1.1 billion of credit card receivables to further diversify its funding.

These alternative activities have strengthened the bank's domestic and foreign funding presence. Their future use will be continually assessed in light of market conditions and their impact on traditional funding sources.

As shown in table 29, liquid assets totalled \$60 billion or 22% of total assets at October 31, 1998, compared to \$55 billion or 23% at year-end 1997. Canadian dollar liquid assets are primarily marketable securities. The bank places much of its foreign currency liquid assets with highly rated foreign banks. Not included in table 29 are reverse repurchase transactions which the bank relies on as part of its short-term liquidity management. At October 31, 1998, net reverse repurchase transactions totalled \$11.1 billion, an increase of \$1.9 billion from year-end 1997.

Liquid assets as shown in table 29 are before consideration of pledging activities outstanding as at October 31, 1998. In the normal course of business, the bank pledges a portion of its liquid assets primarily as collateral for various types of funding transactions, to participate in clearing and payment systems or to meet the requirements of regulators in foreign jurisdictions. At October 31, 1998, \$26.4 billion of assets had been pledged as collateral primarily for obligations related to assets sold under repurchase agreements and obligations related to securities sold short. This represents an increase in pledged assets of \$2.5 billion from the prior year.

table 28 deposits

(\$ MILLIONS)	1998	1997	1996	1995	1994
Canadian dollar deposits					
Personal	\$ 73,258	\$ 74,873	\$ 80,274	\$ 79,912	\$ 75,910
Business and government	39,044	36,629	27,375	23,260	21,610
Bank	2,091	2,548	1,924	2,274	1,476
	114,393	114,050	109,573	105,446	98,996
Foreign currency deposits					
Personal	12,652	11,233	10,500	10,017	9,304
Business and government	37,063	27,739	20,424	16,640	14,812
Bank	15,897	20,207	21,320	11,388	12,703
	65,612	59,179	52,244	38,045	36,819
Total deposits					
Personal	85,910	86,106	90,774	89,929	85,214
Business and government	76,107	64,368	47,799	39,900	36,422
Bank	17,988	22,755	23,244	13,662	14,179
	\$180,005	\$173,229	\$161,817	\$143,491	\$135,815
Personal deposits as a percentage of total deposits	48%	50%	56%	63%	63%

table 29 liquidity

(\$ MILLIONS)	1998	1997	1996	1995	1994
Canadian dollar liquid assets					
Cash and deposits with Bank of Canada.....	\$ 830	\$ 971	\$ 850	\$ 1,030	\$ 1,023
Deposits with other banks.....	3,239	2,864	2,300	2,228	2,657
Securities (1)	22,531	22,245	30,817	28,494	23,447
	<u>26,600</u>	<u>26,080</u>	<u>33,967</u>	<u>31,752</u>	<u>27,127</u>
Foreign currency liquid assets					
Cash and deposits with Bank of Canada.....	452	105	73	87	164
Deposits with other banks.....	11,874	17,452	20,344	14,365	12,605
Securities (1).....	21,042	11,537	13,520	7,492	5,822
	<u>33,368</u>	<u>29,094</u>	<u>33,937</u>	<u>21,944</u>	<u>18,591</u>
Total liquid assets					
Cash and deposits with Bank of Canada.....	1,282	1,076	923	1,117	1,187
Deposits with other banks.....	15,113	20,316	22,644	16,593	15,262
Securities (1).....	43,573	33,782	44,337	35,986	29,269
	<u>\$59,968</u>	<u>\$55,174</u>	<u>\$67,904</u>	<u>\$53,696</u>	<u>\$45,718</u>
Liquid assets as a percentage of total assets	22%	23%	29%	27%	26%

(1) Securities include investment and trading account securities and call loans, but exclude loan substitute securities. Included in securities is \$26.4 billion (1997 – \$23.9 billion, 1996 – \$29.1 billion, 1995 – \$14.8 billion, 1994 – \$10.9 billion), which has been pledged as collateral for various types of funding transactions.

The Year 2000 Issue

The Year 2000 issue arises from many computer systems expressing years by two digits rather than four, with the assumption that the first two digits are always "19". Such systems, if not modified or replaced, could misinterpret the year before and after January 1, 2000 (e.g. read "00" as the year 1900 rather than the year 2000). The results could range from miscalculations to system failure causing a temporary inability to process transactions or engage in normal business activities. The Year 2000 issue presents a significant risk and challenge to the bank because its business is highly dependent on complex systems and technology which have date-sensitive aspects.

In 1995 the bank initiated its Year 2000 program with the objective of ensuring that its important computer systems that support the principal businesses within personal & commercial banking, wealth management and corporate & investment banking, will continue to work smoothly before and after December 31, 1999. These systems have been undergoing an extensive process of coding changes followed by three phases of testing, which also includes testing of related computer hardware and vendor

software products. The last phase of testing is in a "time machine" environment used to test the ability of systems to roll-over from 1999 to 2000 before they are certified as Year 2000 ready.

The bank has made significant progress in modifying and testing these important computer systems and related technology components. As at October 31, 1998, 40% of the systems and technology components have been certified as Year 2000 ready. A further 45% are currently undergoing testing and are scheduled to be certified by December 31, 1998. The remaining 15% of the systems are either existing systems (many of which involve testing with external service providers), or new systems under development, all of which are scheduled to be certified by July 1999.

The bank's Year 2000 program also covers other computer systems, hardware, and software programs throughout the bank, as well as embedded computer chips that are used in the operation of facilities such as vaults, security systems and premises. The bank expects that the large majority of these systems and technology will be modified or replaced (where required) and certified for Year 2000

readiness by December 31, 1998, and the remainder well in advance of January 1, 2000.

To date, the bank has not deferred any material information technology projects as a consequence of its Year 2000 program. However, as a precautionary measure, it intends to "freeze" any new development or changes to existing systems during the period July 2, 1999 to March 6, 2000.

Each business and functional unit in the bank has responsibility for addressing the technology and business risks related to the Year 2000 issue within its area of responsibility. A program management office, managed by a Vice-President and full-time staff reporting to a Vice-Chairman, has the responsibility to monitor the progress against plans of each organizational unit in dealing with its Year 2000 issues and to ensure that interdependencies among units are being addressed. The office provides monthly status reports to management and the Board of Directors of the bank. An executive advisory council, chaired by the Vice-Chairman and having representation from each business and functional unit, meets every two weeks to assist the office in meeting its mandate.

Risk management (continued)

The Year 2000 Issue (continued)

The impact of the Year 2000 issue also depends on the Year 2000 readiness of other parties, including financial institutions, governmental agencies, payment systems, exchanges, depositories, telecommunication companies, and other entities worldwide which provide data to, receive data from, or process data for, the bank. It also depends on the readiness of customers, counterparties and suppliers whose financial condition or operational capability is important to the bank.

The bank is working with external parties to mitigate the risk the Year 2000 issue poses to it and to the global financial community. Key external parties have been identified and contacted to determine their Year 2000 plans and target dates, and the process is ongoing. In particular, the securities brokerage, mutual fund, investment management, custody and trading businesses are working closely with exchanges, clearing agents, depositories and payment associations. Industry-wide street testing is scheduled to take place between March and June 1999.

In addition, credit risk associated with the bank's borrowers and other counterparties may increase as a result of their individual Year 2000 issues. This could give rise to increases in impaired loans and provisions for credit losses in future years. It is not possible at this time to estimate the amounts of any increases in impaired loans and provisions for credit losses in future years.

The bank's liquidity risk may also increase if the Year 2000 issue results in higher than normal drawdowns on loan commitments or withdrawals of deposits.

All organizational units are preparing contingency plans which are expected to be completed by March 1999, and the program management office is coordinating these plans. However, there can be no assurance that the bank's contingency planning will fully mitigate the risks and uncertainties associated with the Year 2000 issue.

The bank believes that by modifying or replacing its systems where required and by monitoring the Year 2000 readiness of key external parties, and by

developing contingency plans, it is mitigating its Year 2000 risks. However, due to the general uncertainty inherent in the Year 2000 issue, resulting in part from the uncertainty of the Year 2000 readiness of other parties, the bank is unable to determine at this time whether the Year 2000 issue will have a material and adverse impact on the bank's results of operations, liquidity and financial condition.

The total cost of the bank's Year 2000 program over the 1995 – 1999 period is currently estimated at \$170 million, an increase of \$20 million over the previous estimate. Of the current estimated total cost, \$35 million represents the cost of new assets to be depreciated over their estimated useful lives, and \$135 million represents operating costs being expensed as incurred. Approximately 25% of the estimated cost of new assets and 55% of the estimated operating costs have been incurred as at October 31, 1998.

European Economic and Monetary Union

As a worldwide provider of foreign exchange and custody services, the bank has also been preparing its computer systems for the commencement on January 1, 1999 of the next stage of Economic and Monetary Union (EMU) whereupon a new currency, "the euro" would become the official currency in many member states of the European Union. A dedicated project team has been in place since January 1996 so that products, business operations and customer service functions and almost 130 supporting computer systems will be appropriately modified and "euro-ready" by January 1, 1999. It is expected that all systems will have been modified and tested for euro-readiness by December 31, 1998.

The introduction of the euro also depends on the readiness of other parties such as clearing agents, suppliers and customers. The bank has been working with these other parties to mitigate the risk the introduction of the euro poses. Banks have been selected and appointed to handle the clearing of the bank's euro transactions. Legal contracts with clients and suppliers have been reviewed and amended where necessary. Finally, the readiness of clients to deal with the euro and the impact on their risk profile have been assessed, and adjustments made to the bank's business dealings with these clients, as appropriate.

Management's responsibility for financial reporting

The financial statements of Royal Bank of Canada were prepared by management, which is responsible for the integrity and fairness of the data presented, including the many amounts which must of necessity be based on estimates and judgments. The financial statements were prepared in accordance with generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada. Financial information appearing throughout this Annual Report is consistent with the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements and for the accounting systems from which they are derived, management maintains the necessary system of internal controls designed to ensure that transactions are authorized, assets are safeguarded and proper records maintained. These controls include quality standards in hiring and training of employees, policies and procedure manuals, a corporate code of conduct and accountability for performance within appropriate and well-defined areas of responsibility.

The system of internal controls is further supported by a compliance function, which ensures that the bank and its employees comply with securities legislation and conflict of interest rules, and by an internal audit staff, which conducts periodic audits of all aspects of the bank's operations.

The board of directors oversees management's responsibilities for financial reporting through an Audit Committee, which is composed entirely of directors who are neither officers nor employees of the bank. This Committee reviews the consolidated financial statements of the bank and recommends them

to the board for approval. Other key responsibilities of the Audit Committee include reviewing the bank's existing internal control procedures and planned revisions to those procedures, and advising the directors on auditing matters and financial reporting issues. The bank's Compliance Officer and Chief Internal Auditor have full and unrestricted access to the Audit Committee.

The Superintendent of Financial Institutions Canada, at least once a year, makes such examination and enquiry into the affairs of the bank as deemed necessary to ensure that the provisions of the Bank Act, having reference to the safety of the depositors and shareholders of the bank, are being duly observed and that the bank is in a sound financial condition.

Deloitte & Touche LLP and PricewaterhouseCoopers LLP, independent auditors appointed by the shareholders of the bank upon the recommendation of the Audit Committee, have examined the financial statements and their report follows. The shareholders' auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the bank's financial reporting and the adequacy of the system of internal controls.

JOHN E. CLEGHORN
CHAIRMAN & CHIEF EXECUTIVE OFFICER

PETER W. CURRIE
EXECUTIVE VICE-PRESIDENT & CHIEF FINANCIAL OFFICER

Toronto, November 20, 1998

Auditors' report

To the Shareholders of Royal Bank of Canada

We have audited the consolidated balance sheet of Royal Bank of Canada as at October 31, 1998 and the consolidated statements of income, changes in shareholders' equity and changes in financial position for the year then ended. These financial statements are the responsibility of the bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the bank as at October 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada.

The consolidated financial statements for the years ended October 31, 1997 and 1996 were audited by Deloitte & Touche and KPMG who expressed an opinion thereon without reservation in their report dated December 3, 1997.

DELOITTE & TOUCHE LLP
PRICEWATERHOUSECOOPERS LLP
CHARTERED ACCOUNTANTS

Toronto, November 20, 1998

consolidated balance sheet

AS AT OCTOBER 31 (IN MILLIONS OF DOLLARS)

	1998	1997
assets		
Cash resources		
Cash and deposits with Bank of Canada.....	\$ 834	\$ 1,076
Deposits with other banks		
Interest bearing.....	14,603	19,747
Non-interest bearing.....	510	569
Cheques and other items in transit.....	448	—
	<u>16,395</u>	<u>21,392</u>
Securities (note 4)		
Trading account.....	28,547	18,740
Investment account.....	12,093	13,475
Loan substitute.....	759	822
	<u>41,399</u>	<u>33,037</u>
Loans (note 5)		
Residential mortgages.....	57,019	53,316
Personal.....	22,575	20,764
Credit cards.....	1,945	2,324
Business and government.....	63,808	61,221
Assets purchased under reverse repurchase agreements.....	19,907	18,642
	<u>165,254</u>	<u>156,267</u>
Other		
Customers' liability under acceptances.....	10,620	10,561
Premises and equipment (note 6).....	1,872	1,696
Other assets (note 7).....	38,859	21,821
	<u>51,351</u>	<u>34,078</u>
	<u>\$274,399</u>	<u>\$244,774</u>
liabilities and shareholders' equity		
Deposits (note 8)		
Personal.....	\$ 85,910	\$ 86,106
Business and government.....	76,107	64,368
Bank.....	17,988	22,755
	<u>180,005</u>	<u>173,229</u>
Other		
Acceptances.....	10,620	10,561
Obligations related to securities sold short.....	14,404	11,152
Obligations related to assets sold under repurchase agreements.....	8,800	9,458
Other liabilities (note 9).....	44,591	25,757
	<u>78,415</u>	<u>56,928</u>
Subordinated debentures (note 10).....	<u>4,087</u>	<u>4,227</u>
Shareholders' equity		
Capital stock (note 11)		
Preferred.....	2,144	1,784
Common.....	2,925	2,907
Retained earnings.....	6,823	5,699
	<u>11,892</u>	<u>10,390</u>
	<u>\$274,399</u>	<u>\$244,774</u>

JOHN E. CLEGHORN
CHAIRMAN & CHIEF EXECUTIVE OFFICER

RONALD L. CLIFF
DIRECTOR

consolidated statement of income

FOR THE YEAR ENDED OCTOBER 31 (IN MILLIONS OF DOLLARS)

	1998	1997	1996
Interest income			
Loans	\$11,767	\$ 9,951	\$ 9,856
Securities	2,187	2,347	2,430
Deposits with banks	822	1,009	922
	<u>14,776</u>	<u>13,307</u>	<u>13,208</u>
Interest expense			
Deposits	7,732	6,548	7,115
Subordinated debentures	339	384	322
Other	1,641	1,375	1,126
	<u>9,712</u>	<u>8,307</u>	<u>8,563</u>
Net interest income	<u>5,064</u>	<u>5,000</u>	<u>4,645</u>
Other income			
Capital market fees	1,118	1,172	764
Trading revenues	748	606	368
Deposit and payment service charges	664	690	701
Investment management and custodial fees	495	404	319
Mutual fund revenues	447	354	277
Card service revenues	305	332	282
Securitization revenues	218	—	—
Other	990	721	591
	<u>4,985</u>	<u>4,279</u>	<u>3,266</u>
Gross revenues	<u>10,049</u>	<u>9,279</u>	<u>7,911</u>
Provision for credit losses	<u>575</u>	<u>380</u>	<u>440</u>
	<u>9,474</u>	<u>8,899</u>	<u>7,471</u>
Non-interest expenses			
Human resources	3,594	3,365	2,851
Occupancy	508	559	507
Equipment	585	605	492
Communications	665	587	523
Other	1,047	937	739
	<u>6,399</u>	<u>6,053</u>	<u>5,112</u>
Net income before income taxes	<u>3,075</u>	<u>2,846</u>	<u>2,359</u>
Income taxes (note 12)	<u>1,175</u>	<u>1,090</u>	<u>880</u>
Net income before non-controlling interest	<u>1,900</u>	<u>1,756</u>	<u>1,479</u>
Non-controlling interest in net income of subsidiaries	<u>76</u>	<u>77</u>	<u>49</u>
Net income	<u>\$ 1,824</u>	<u>\$ 1,679</u>	<u>\$ 1,430</u>
Preferred share dividends	<u>145</u>	<u>131</u>	<u>144</u>
Net income available to common shareholders	<u>\$ 1,679</u>	<u>\$ 1,548</u>	<u>\$ 1,286</u>
Average number of common shares (in thousands)	<u>308,662</u>	<u>308,906</u>	<u>314,121</u>
Earnings per share (in dollars)	<u>\$5.44</u>	<u>\$5.01</u>	<u>\$4.09</u>
Average number of fully diluted common shares (in thousands)	<u>322,020</u>	<u>319,065</u>	<u>314,121</u>
Fully diluted earnings per share (in dollars)	<u>\$5.30</u>	<u>\$4.91</u>	<u>\$4.09</u>

consolidated statement of changes in shareholders' equity

FOR THE YEAR ENDED OCTOBER 31 (IN MILLIONS OF DOLLARS)

	1998	1997	1996
Preferred shares			
Balance at beginning of year	\$ 1,784	\$ 1,752	\$1,990
Issued (note 11)	300	—	—
Redeemed and purchased for cancellation	—	—	(237)
Translation adjustment on shares denominated in foreign currency	60	32	(1)
Balance at end of year	<u>\$ 2,144</u>	<u>\$ 1,784</u>	<u>\$1,752</u>
Common shares			
Balance at beginning of year	\$ 2,907	\$ 2,876	\$2,910
Issued (note 11)	18	69	—
Purchased for cancellation (note 11)	—	(38)	(34)
Balance at end of year	<u>\$ 2,925</u>	<u>\$ 2,907</u>	<u>\$2,876</u>
Retained earnings			
Balance at beginning of year	\$ 5,699	\$ 4,786	\$4,132
Adoption of Impaired Loans accounting standard, net of income taxes of \$55 million	—	—	(75)
Balance at beginning of year, as restated	5,699	4,786	4,057
Net income	1,824	1,679	1,430
Preferred share dividends	(145)	(131)	(144)
Common share dividends	(543)	(469)	(418)
Premium paid on common shares purchased for cancellation (note 11)	—	(160)	(136)
Share issuance costs	(7)	—	—
Unrealized foreign currency translation gains and losses, net of hedging activities and related income taxes	(5)	(6)	(3)
Balance at end of year	<u>\$ 6,823</u>	<u>\$ 5,699</u>	<u>\$4,786</u>
Shareholders' equity at end of year	<u><u>\$11,892</u></u>	<u><u>\$10,390</u></u>	<u><u>\$9,414</u></u>

consolidated statement of changes in financial position

FOR THE YEAR ENDED OCTOBER 31 (IN MILLIONS OF DOLLARS)

	1998	1997	1996
Cash flows from operating activities			
Net income.....	\$1,824	\$ 1,679	\$ 1,430
Adjustments to determine cash flows from operating activities			
Depreciation.....	342	382	325
Provision for credit losses.....	575	380	440
Deferred income taxes.....	181	229	214
Change in accrued interest receivable and payable.....	242	(387)	(357)
Increase in trading account securities.....	(9,807)	(1,389)	(4,413)
Other.....	131	(473)	61
	<u>(6,512)</u>	<u>421</u>	<u>(2,300)</u>
Cash flows from financing activities			
Increase in deposits.....	6,057	10,394	18,326
Issue of subordinated debentures.....	500	1,576	1,300
Subordinated debentures matured.....	(72)	—	—
Preferred shares redeemed and purchased for cancellation.....	—	—	(237)
Issue of common shares.....	18	69	—
Issue of preferred shares.....	300	—	—
Common shares purchased for cancellation.....	—	(198)	(170)
Dividends.....	(688)	(600)	(562)
Change in obligations related to assets sold with recourse or under repurchase agreements.....	(995)	(6,624)	12,525
Issue of shares by subsidiaries to non-controlling interests in consideration for the purchase of Richardson Greenshields Limited.....	—	239	—
Other.....	2,508	(418)	(59)
	<u>7,628</u>	<u>4,438</u>	<u>29,923</u>
Cash flows from investing activities			
Increase in loans.....	(8,297)	(13,660)	(9,799)
Increase in assets purchased under reverse repurchase agreements.....	(1,265)	(7,196)	(6,855)
Increase in obligations related to securities sold short.....	3,252	2,821	1,203
Purchase of investment securities.....	(15,084)	(10,493)	(34,337)
Maturity of investment securities.....	12,377	20,456	17,571
Sale of investment securities.....	4,089	1,919	10,621
Change in non-operating deposits with other banks.....	5,406	2,584	(5,981)
Change in loan substitute securities.....	63	(40)	(120)
Acquisitions of premises and equipment.....	(518)	(293)	(240)
Consideration paid for purchase of Richardson Greenshields Limited.....	—	(480)	—
	<u>23</u>	<u>(4,382)</u>	<u>(27,937)</u>
Change in cash and cash equivalents.....	1,139	477	(314)
Cash and cash equivalents at beginning of year.....	1,270	793	1,107
Cash and cash equivalents at end of year.....	<u>\$ 2,409</u>	<u>\$ 1,270</u>	<u>\$ 793</u>
Cash and deposits with Bank of Canada.....	\$ 834	\$ 1,076	\$ 923
Operating balances on deposit with other banks.....	1,127	924	668
Cheques and other items in transit.....	448	(730)	(798)
Total.....	<u>\$ 2,409</u>	<u>\$ 1,270</u>	<u>\$ 793</u>
Supplemental disclosure of cash flow information			
Amount of interest paid in year.....	\$ 9,632	\$ 8,643	\$ 8,674
Amount of income taxes paid in year.....	\$ 604	\$ 845	\$ 429

note 1: significant accounting policies

Pursuant to the Bank Act, the consolidated financial statements of Royal Bank of Canada are prepared in accordance with Canadian generally accepted accounting principles (GAAP), including the accounting requirements of the Superintendent of Financial Institutions Canada. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and income and expenses during the reporting period. Actual results could differ from those estimates. Note 20 to the consolidated financial statements describes and reconciles the differences between Canadian and United States GAAP. Certain comparative amounts have been reclassified to conform with the current year's presentation. The significant accounting policies followed in the preparation of these financial statements are summarized below.

Basis of consolidation

The consolidated financial statements include the assets and liabilities and results of operations of all subsidiaries after elimination of intercompany transactions and balances. The bank accounts for the acquisition of subsidiaries using the purchase method; any difference between the cost of the investment and the fair value of the net assets acquired is amortized over appropriate periods of up to 15 years, except where a write-down is required to reflect permanent impairment. The carrying value of goodwill is evaluated by reviewing returns of the related business, taking into account the risk associated with the investment.

The equity method is used to account for investments in associated corporations, which are corporations in which the bank holds at least a 20% interest but does not exercise control. The bank's share of earnings of these associated corporations is included in income from securities. Gains and losses realized on dispositions of investments in associated corporations are included in Other income.

Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date; income and expenses are translated at prevailing quarter-end rates.

Unrealized foreign currency translation gains and losses (net of hedging activities and related income taxes) on investments in foreign branches, subsidiaries and associated corporations are recorded in Retained earnings. On disposal of such investments, the accumulated net translation gain or loss is included in Other income. Other foreign currency translation gains and losses (net of hedging activities) are included in Other income.

Securities

Securities comprise investment account and trading account securities as well as loan substitute securities.

Investment account securities are purchased with the original intention to hold the securities to maturity or until market conditions render alternative investments more attractive. Equity securities are stated at cost and debt securities at amortized cost. Premiums and discounts on debt securities are amortized to interest income from securities using the yield method over the period to maturity of the related securities. Gains and losses realized on disposal of securities, which are calculated on an average cost basis, and write-downs to reflect other than temporary impairment in value are included in Other income.

Trading account securities, which are purchased for resale over a short period of time, are stated at estimated current market value. Obligations to deliver trading securities sold but not yet purchased are recorded as liabilities and are carried at their fair values. Gains and losses realized on disposal, and unrealized valuation adjustments, are included in Other income in the period in which they occur. Interest income accruing on trading securities is recorded in Interest income from securities. Interest expense accruing on interest-bearing securities sold short is recorded in Interest expense.

Loan substitute securities are customer financings which have been structured as after-tax investments rather than conventional loans in order to provide the issuers with a borrowing rate advantage. Such securities are accorded the accounting treatment applicable to Loans.

Loans

Loans are stated net of an allowance for credit losses and unearned income, which is comprised of unearned interest and unamortized loan fees.

Loans are classified as impaired when there is no longer reasonable assurance of the timely collection of principal and interest. Whenever a payment is 90 days past due, loans other than credit card balances are automatically classified as impaired unless they are well secured and in the process of collection. Credit card balances are written off when a payment is 180 days in arrears. When a loan has been identified as impaired, the carrying amount of the loan is reduced to its estimated realizable amount, measured by discounting the expected future cash flows at the effective interest rate inherent in the loan. In subsequent periods, any increase in the carrying value of the loan is credited to the provision for credit losses. Interest received on impaired loans is credited to the carrying value of the loan. Impaired loans are returned to performing status when there is no longer any reasonable doubt regarding the timely collection of principal and interest, all amounts in arrears (including interest) have been collected and all charges for loan impairment have been reversed. Where a portion of a loan is written off and the remaining balance is restructured, the new loan is carried on an accrual basis when there is no longer any reasonable doubt regarding the collectibility of principal and interest, and payments are not 90 days past due.

Collateral is obtained if, based on an evaluation of the customer's credit-worthiness, it is considered necessary for the customer's overall borrowing facility. Collateral would normally be in the form of assets such as cash, government securities, shares, accounts receivable, inventory, or fixed assets.

Loans (continued)

Assets acquired in satisfaction of problem loans are recorded at the lesser of their fair value at the date of transfer or the carrying value of the loan. Any excess of the carrying value of the loan over the fair value of the assets acquired is written off. Operating results and gains and losses on disposal of these assets are treated as write-offs and recoveries.

Fees which relate to such activities as originating, restructuring or renegotiating loans are deferred and recognized as Interest income over the expected term of such loans. Where there is reasonable expectation that a loan will result, commitment and standby fees are also recognized as Interest income over the expected term of the resulting loan. Otherwise, such fees are recognized as Other income over the commitment or standby period.

Allowance for credit losses

The allowance for credit losses is maintained in an amount considered adequate to absorb estimated credit-related losses. The allowance for credit losses reflects management's best estimate of the losses existing in the credit portfolio and their judgments about economic conditions. If the circumstances under which these estimates and judgments were made change, there could be a significant change to the allowance for credit losses currently recognized. Credit losses arise primarily from loans but also relate to deposits with other banks, derivatives, loan substitute securities and other credit instruments such as acceptances, guarantees and letters of credit. The allowance is increased by provisions for credit losses which are charged to income and reduced by write-offs net of recoveries.

Specific provisions are established on an individual facility basis to recognize credit losses on business and government loans. For residential mortgages, personal loans (excluding credit card balances) and small business loans, aggregate provisions are recorded by reference to historical ratios of write-offs to balances outstanding. For credit cards, no provisions are recorded; instead, balances are written off when no payment has been received for 180 days.

A *country risk provision* is made in respect of aggregate exposures, entered into prior to November 1, 1995, to a number of less developed countries (LDC) based on an overall assessment of the underlying economic conditions in those countries.

A *general provision* is established to absorb credit losses attributable to the deterioration of credit quality within major portfolios for which specific provisions cannot yet be determined. The amount of the general provision is determined through analysis of domestic and global economic developments, sectoral and portfolio trends, impaired loan levels, and average loss trends. The determination of the amount of the general provision also considers the current stage of the economic cycle, whereby the amount will be higher at the peak of the cycle (when specific provisions tend to be lower) and lower at the end of a recession (when specific provisions tend to be higher). The general provision reflects management's estimate of losses existing in the portfolio but which are not yet specifically identifiable and does not represent future losses or serve as a substitute for specific provisions. When losses can be attributed to individual loan facilities, specific provisions are recorded.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and there is no realistic prospect of recovery.

Assets purchased under reverse repurchase agreements and assets sold under repurchase agreements

The bank enters into short-term purchases of securities under agreements to resell (reverse repurchase agreements) and sales of securities under agreements to repurchase (repurchase agreements). These agreements are treated as collateralized lending and borrowing transactions and are carried on the balance sheet at the amounts at which the securities were initially acquired or sold. Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are reported as Interest income and Interest expense, respectively.

Acceptances

The potential liability under acceptances is reported as a liability in the balance sheet. The recourse against the customer in the case of a call on these commitments is reported as a corresponding asset of the same amount. Fees earned are reported in Other income.

Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is recorded principally on the straight-line basis over the estimated useful lives of the assets which are 25 to 50 years for buildings, 3 to 10 years for computers, 7 to 10 years for furniture, fixtures and other equipment, and *lease term plus first option period* for leasehold improvements. Gains and losses on disposal are recorded in Other income.

Income taxes

The tax allocation basis of accounting is followed, under which income taxes on specific transactions are recorded in the periods in which the transactions are recognized for accounting purposes, regardless of when the transactions are recognized for tax purposes. Income taxes comprise amounts applicable to income included in the Statement of Income and to items charged or credited to Retained earnings.

Deferred income taxes accumulated as a result of timing differences are included in Other assets. In addition, the Statement of Income contains items which are non-taxable or non-deductible for income tax purposes and, accordingly, cause the income tax provision to be different than it would be if based on statutory rates.

Derivatives

Derivatives are used in sales and trading activities to provide clients with the ability to manage their market risk exposures. Derivatives are also used to manage the bank's own exposures to interest, currency and other market risks. The most frequently used derivative products are foreign exchange forward contracts, interest rate and currency swaps, foreign currency and interest rate futures, forward rate agreements, and foreign currency and interest rate options.

When used in sales and trading activities, the realized and unrealized gains and losses on these derivatives are recognized in Other income. Market values are determined using pricing models which incorporate current market and contractual prices of the underlying instruments, time value of money, yield curve and volatility factors. A portion of the market value is deferred within Derivative related amounts in Other liabilities and amortized to income over the life of the instruments to cover credit considerations and on-going direct servicing costs.

note 1: significant accounting policies (continued)

Derivatives (continued)

Unrealized gains and unrealized losses are generally reported on a gross basis as Derivative related amounts in Other assets and Other liabilities, except where the bank has both the legal right and intent to settle these amounts simultaneously in which case they are presented on a net basis. Margin requirements and premiums paid are also included in Derivative related amounts in Other assets while premiums received are shown in Derivative related amounts in Other liabilities.

When derivatives are used to manage the bank's own exposures, the revenue or expense is recognized over the life of the transaction as an adjustment to interest revenue or expense. Where derivatives have been designated and function effectively as hedges, realized gains and losses are deferred and amortized over the life of hedged assets or liabilities as adjustments to interest income or interest expense.

Postretirement benefits

The bank maintains a defined benefit pension plan which is available to substantially all employees after two years service or at age 25, on a contributory or a non-contributory basis. The plan provides pensions based on years of service and contributions, and average earnings at retirement. Employees of subsidiaries of the bank are generally covered by separate pension plans which offer comparable benefits. It is the bank's funding policy to annually contribute to its pension funds the actuarially determined amounts needed to satisfy employee benefit laws. Investments held by the pension funds are primarily comprised of equity securities, bonds and debentures.

Actuarial valuations are performed each year to determine the present value of the accrued pension benefits, based on projections of employees' compensation levels to the time of retirement. Pension fund assets are carried at adjusted market values, with adjustments to bring the value of the assets to market value being made over a three year period.

Pension expense consists of the aggregate of (a) the actuarially computed cost of pension benefits provided in respect of the current year's service, (b) imputed interest on the funding excess or deficiency of the plan and (c) the amortization over the expected average remaining service life of employees of the funding excess existing at the date the current accounting policy commenced, experience gains and losses, and amounts arising as a result of changes in assumptions and plan amendments.

The cumulative excess of pension fund contributions over the amounts recorded as expense is reported as Prepaid pension cost in Other assets.

The bank also provides health and dental care benefits and life insurance coverage to employees who retire after ten years service, and to their dependents. Costs of providing these benefits are charged to income as expenditures are incurred.

Assets under administration and assets under management

The bank administers and manages assets owned by clients which are not reflected on the balance sheet. Asset management fees are earned for providing investment management services and mutual fund products. Asset administration fees are earned for providing trust, estate administration and custodial services. Fees are recognized and reported in Other income as the services are provided.

Loan securitization

The bank periodically securitizes portions of assets by selling loans to special-purpose vehicles or trusts which in turn issue securities to investors. These transactions are accounted for as sales when the significant risks and rewards of ownership have been transferred and there is reasonable assurance regarding the measurement of the consideration derived from the sale. Gains on these transactions are recognized in Other income provided there is no recourse to the bank for the consideration derived from the sale. To the extent that there is recourse to the bank on the transaction, any gain on sale would be deferred until the cash is collected and there is no recourse.

Fees earned by the bank to service the securitized loans are recognized as services are provided and reported in Other income.

Recent accounting standards not yet adopted by the bank

The Canadian Institute of Chartered Accountants issued the new handbook section 3465, *Income Taxes*, which changes the accounting for income taxes. Effective for fiscal years beginning on or after January 1, 2000, the existing deferral method which focuses on the income statement will be replaced with the liability method of tax allocation which focuses on the balance sheet. When the new standard is adopted, deferred income taxes will represent temporary differences between the tax basis of assets and liabilities and their carrying values for accounting purposes. The liability method requires all deferred income tax assets and liabilities to be remeasured at the tax rate that is expected to apply when the temporary differences reverse.

The impact of adopting the new standard is not expected to have a material effect on the financial statements of the bank.

note 2: proposed merger with Bank of Montreal

On January 23, 1998, Royal Bank of Canada and Bank of Montreal announced their intentions to merge their respective banks. The merger will be effected by a statutory amalgamation pursuant to which the amalgamating banks will continue in operation as a Schedule I bank under the Bank Act (Canada). Pursuant to the agreement signed on that day, the merged bank will be owned by the shareholder groups of the combining banks. Royal Bank of Canada common shares will be exchanged on a one-for-one basis for common shares of the merged bank. Bank of Montreal common shareholders will receive .97 of a common share of the merged bank for each Bank of Montreal common share.

The proposed merger will be accounted for as a pooling of interests. Under this method the assets and liabilities of the two banks will be combined at their historical carrying values and the earnings of the merged bank will include the earnings for the two banks for all periods presented as if the two banks had always been combined.

The proposed merger is subject to shareholder, regulatory and government approval. Upon regulatory and government approval, a joint management proxy circular will be sent to shareholders at a later date.

note 3: results by business segment

1998	PERSONAL & COMMERCIAL BANKING	WEALTH MANAGEMENT	CORPORATE & INVESTMENT BANKING	OTHER	TOTAL
Net interest income on taxable equivalent basis	\$ 4,224	\$ 347	\$ 689	\$ (159)	\$ 5,101
Taxable equivalent adjustment	13	—	24	—	37
Net interest income	4,211	347	665	(159)	5,064
Other income	1,376	1,828	1,299	482	4,985
Gross revenues	5,587	2,175	1,964	323	10,049
Provision for credit losses	304	1	385	(115)	575
Non-interest expenses	3,433	1,689	1,176	101	6,399
Net income before income taxes	1,850	485	403	337	3,075
Income taxes	755	184	126	110	1,175
Non-controlling interest	3	12	49	12	76
Net income	\$ 1,092	\$ 289	\$ 228	\$ 215	\$ 1,824
Total average assets	\$111,100	\$11,900	\$128,100	\$10,200	\$261,300

1997	PERSONAL & COMMERCIAL BANKING	WEALTH MANAGEMENT	CORPORATE & INVESTMENT BANKING	OTHER	TOTAL
Net interest income on taxable equivalent basis	\$ 3,972	\$ 336	\$ 721	\$ 3	\$ 5,032
Taxable equivalent adjustment	16	—	16	—	32
Net interest income	3,956	336	705	3	5,000
Other income	1,359	1,708	1,097	115	4,279
Gross revenues	5,315	2,044	1,802	118	9,279
Provision for credit losses	226	6	142	6	380
Non-interest expenses	3,390	1,592	1,040	31	6,053
Net income before income taxes	1,699	446	620	81	2,846
Income taxes	677	185	235	(7)	1,090
Non-controlling interest	3	20	43	11	77
Net income	\$ 1,019	\$ 241	\$ 342	\$ 77	\$ 1,679
Total average assets	\$100,000	\$12,300	\$109,900	\$17,300	\$239,500

1996	PERSONAL & COMMERCIAL BANKING	WEALTH MANAGEMENT	CORPORATE & INVESTMENT BANKING	OTHER	TOTAL
Net interest income on taxable equivalent basis	\$ 3,822	\$ 405	\$ 609	\$ (161)	\$ 4,675
Taxable equivalent adjustment	9	—	21	—	30
Net interest income	3,813	405	588	(161)	4,645
Other income	1,189	1,058	891	128	3,266
Gross revenues	5,002	1,463	1,479	(33)	7,911
Provision for credit losses	314	11	424	(309)	440
Non-interest expenses	3,245	1,088	822	(43)	5,112
Net income before income taxes	1,443	364	233	319	2,359
Income taxes	585	144	57	94	880
Non-controlling interest	4	20	26	(1)	49
Net income	\$ 854	\$ 200	\$ 150	\$ 226	\$ 1,430
Total average assets	\$89,600	\$11,600	\$85,400	\$18,300	\$204,900

For management reporting purposes, the operations of the bank are grouped into the business segments of Personal & Commercial Banking, Wealth Management, and Corporate & Investment Banking, with the Other segment comprised mainly of earnings on LDC assets, real estate operations, corporate treasury, and the systems and operations functions.

The business segments of the bank operate on an arms length basis with respect to the purchase and sale of intra-group services. Transfer pricing of funds sold or purchased, commissions, or charges and credits for services rendered are generally based on third party or market pricing strategies.

For the year ended October 31, 1998, 19% of the bank's gross revenues were from international sources (1997 – 15%; 1996 – 17%) and 37% of net income was from international sources (1997 – 28%; 1996 – 51%). The bank considers its gross revenues and net income from domestic sources to be derived from all business transacted in Canada, regardless of the currency, with the exception of the Canadian-based activities of international money market units. These units' activities, together with the bank's business carried on outside Canada, comprise gross revenues and net income from international sources.

note 4: securities

	TERM TO MATURITY					1998	1997
	UNDER 1 YEAR	1 TO 5 YEARS	5 TO 10 YEARS	OVER 10 YEARS	WITH NO SPECIFIC MATURITY	TOTAL	TOTAL
Investment account							
Canadian government debt (1)							
Carrying value.....	\$ 4,211	\$2,624	\$ 82	\$ 164	\$ —	\$ 7,081	\$ 8,466
Estimated market value.....	4,243	2,671	86	187	—	7,187	8,659
Yield (2).....	5.8%	5.8%	6.4%	6.5%	—	5.8%	5.8%
U.S. government debt							
Carrying value.....	5	—	—	—	—	5	597
Estimated market value.....	5	—	—	—	—	5	604
Yield (2).....	4.3%	—	—	—	—	4.3%	6.5%
Other OECD government debt							
Carrying value.....	1,009	364	10	—	—	1,383	893
Estimated market value.....	1,008	371	11	—	—	1,390	929
Yield (2).....	.5%	5.9%	5.1%	—	—	2.0%	6.5%
Mortgage-backed securities							
Carrying value.....	105	112	4	10	—	231	365
Estimated market value.....	107	117	5	10	—	239	382
Yield (2).....	8.8%	8.3%	6.7%	6.0%	—	8.4%	7.9%
Other debt							
Carrying value.....	1,259	721	939	124	4	3,047	2,662
Estimated market value.....	1,254	723	905	126	4	3,012	2,693
Yield (2).....	5.0%	6.8%	8.6%	7.9%	—	6.6%	6.2%
Bonds of less developed countries							
Carrying value.....	—	—	—	—	—	—	318
Estimated market value.....	—	—	—	—	—	—	492
Yield (2).....	—	—	—	—	—	—	12.0%
Equities							
Carrying value.....	—	—	—	—	346	346	174
Estimated market value.....	—	—	—	—	366	366	214
Yield (2).....	—	—	—	—	—	—	.4%
Total investment account securities							
Carrying value.....	6,589	3,821	1,035	298	350	12,093	13,475
Estimated market value.....	6,617	3,882	1,007	323	370	12,199	13,973
Trading account							
Canadian government debt (1).....	4,218	3,000	2,018	1,634	—	10,870	9,360
U.S. government debt.....	323	612	39	52	—	1,026	1,087
Other OECD government debt.....	616	414	192	66	—	1,288	246
Other debt.....	2,758	1,428	782	506	—	5,474	4,976
Equities.....	—	—	—	—	9,889	9,889	3,071
	7,915	5,454	3,031	2,258	9,889	28,547	18,740
Loan substitute (3).....	121	440	167	—	31	759	822
	\$14,625	\$9,715	\$4,233	\$2,556	\$10,270	\$41,399	\$33,037

(1) Canadian government debt is comprised of securities issued or guaranteed by Canadian federal, provincial or municipal governments.

(2) The weighted-average yield is based on the carrying value at the end of the year for the respective securities.

(3) The market value of loan substitute securities approximates carrying value.

unrealized gains and losses on investment account securities

	1998				1997			
	CARRYING VALUE	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED MARKET VALUE	CARRYING VALUE	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED MARKET VALUE
Canadian government debt.....	\$ 7,081	\$108	\$ (2)	\$ 7,187	\$ 8,466	\$197	\$ (4)	\$ 8,659
U.S. government debt.....	5	—	—	5	597	7	—	604
Other OECD government debt.....	1,383	11	(4)	1,390	893	36	—	929
Mortgage-backed securities.....	231	8	—	239	365	17	—	382
Other debt.....	3,047	36	(71)	3,012	2,662	36	(5)	2,693
Bonds of less developed countries....	—	—	—	—	318	174	—	492
Equities.....	346	25	(5)	366	174	42	(2)	214
	\$12,093	\$188	\$(82)	\$12,199	\$13,475	\$509	\$(11)	\$13,973

note 5: loans

impaired loans

					1998	1997
	GROSS	SPECIFIC PROVISIONS	GENERAL PROVISION	COUNTRY RISK PROVISION	NET	NET
Residential mortgages	\$ 166	\$ (50)	\$ —	\$ —	\$116	\$114
Personal loans	217	(156)	—	—	61	61
Business and government loans (1)	1,618	(970)	—	(40)	608	678
General provision	—	—	(850)	—	(850)	(750)
	<u>\$2,001</u>	<u>\$(1,176)</u>	<u>\$(850)</u>	<u>\$(40)</u>	<u>\$(65)</u>	<u>\$103</u>

(1) Business and government loans include specific provisions related to loan substitute securities of \$40 million (1997 – \$30 million).

allowance for credit losses

	BALANCE AT BEGINNING OF YEAR	WRITE-OFFS	RECOVERIES	PROVISION FOR CREDIT LOSSES	OTHER	1998 BALANCE AT END OF YEAR	1997 BALANCE AT END OF YEAR
Residential mortgages	\$ 52	\$ (17)	\$ 6	\$ 9	\$ —	\$ 50	\$ 52
Personal loans	92	(163)	26	171	30	156	92
Credit cards	—	(52)	24	28	—	—	—
Business and government loans	1,224	(604)	88	267	35	1,010	1,224
General provision	750	—	—	100	—	850	750
	<u>\$2,118</u>	<u>\$(836)</u>	<u>\$144</u>	<u>\$575</u>	<u>\$65</u>	<u>\$2,066</u>	<u>\$2,118</u>
Specific provisions (1)	\$ 932	\$(511)	\$144	\$555	\$56	\$1,176	\$ 932
Country risk provision (2)	436	(325)	—	(80)	9	40	436
General provision	750	—	—	100	—	850	750
	<u>\$2,118</u>	<u>\$(836)</u>	<u>\$144</u>	<u>\$575</u>	<u>\$65</u>	<u>\$2,066</u>	<u>\$2,118</u>

(1) Specific provisions include an amount of \$40 million (1997 – \$30 million) related to loan substitute securities.

(2) In 1997, the country risk provision included an amount of \$319 million which was deducted from securities in respect of restructured collateralized bonds of less developed countries.

note 6: premises and equipment

	COST	ACCUMULATED DEPRECIATION	1998 NET BOOK VALUE	1997 NET BOOK VALUE
Land	\$ 192	\$ —	\$ 192	\$ 212
Buildings	1,147	452	695	698
Computer equipment	1,059	590	469	366
Furniture, fixtures and other equipment	639	380	259	209
Leasehold improvements	623	366	257	211
	<u>\$3,660</u>	<u>\$1,788</u>	<u>\$1,872</u>	<u>\$1,696</u>

note 7: other assets

	1998	1997
Derivative related amounts.....	\$30,413	\$14,776
Accrued interest	1,353	1,515
Amounts receivable from brokers, dealers and clients	1,297	811
Assets sold with recourse.....	1,012	1,349
Deferred income taxes	730	874
Goodwill and other intangibles.....	551	607
Prepaid pension cost.....	293	286
Other, including accounts receivable and prepaid expenses.....	3,210	1,603
	<u>\$38,859</u>	<u>\$21,821</u>

note 8: deposits

	PAYABLE ON DEMAND				PAYABLE AFTER NOTICE		PAYABLE ON A FIXED DATE		TOTAL	
	INTEREST BEARING		NON-INTEREST BEARING		1998	1997	1998	1997	1998	1997
	1998	1997	1998	1997						
Personal.....	\$ 4,521	\$ 2,808	\$ 1,348	\$ 2,413	\$26,123	\$26,995	\$ 53,918	\$ 53,890	\$ 85,910	\$ 86,106
Business and government.....	8,448	6,801	12,168	10,448	7,201	7,042	48,290	40,077	76,107	64,368
Bank.....	549	1,414	1,297	1,298	440	96	15,702	19,947	17,988	22,755
	<u>\$13,518</u>	<u>\$11,023</u>	<u>\$14,813</u>	<u>\$14,159</u>	<u>\$33,764</u>	<u>\$34,133</u>	<u>\$117,910</u>	<u>\$113,914</u>	<u>\$180,005</u>	<u>\$173,229</u>

note 9: other liabilities

	1998	1997
Derivative related amounts.....	\$29,370	\$14,732
Secured liabilities of subsidiaries other than deposits.....	4,298	2,149
Amounts payable to brokers, dealers and clients	2,501	922
Accrued interest	2,116	2,036
Obligations related to assets sold with recourse.....	1,012	1,349
Non-controlling interest in subsidiaries.....	499	531
Income taxes payable.....	324	258
Dividends payable.....	170	144
Cheques and other items in transit.....	—	730
Other, including accounts payable and accrued expenses	4,301	2,906
	<u>\$44,591</u>	<u>\$25,757</u>

note 10: subordinated debentures

The debentures are unsecured obligations and are subordinated in right of payment to the claims of depositors and certain other creditors. All repurchases, cancellations and exchanges of subordinated debentures are subject to the consent and approval of the Superintendent of Financial Institutions Canada.

MATURITY	RATE		DENOMINATED IN FOREIGN CURRENCY	1998	1997
Royal Bank of Canada					
June 1, 1998.....	10.80%			\$ -	\$ 72
January 15, 1999.....	10.90%	(1)		75	99
October 14, 1999.....	10.20%	(1)		48	72
July 1, 2000.....	11.00%			20	30
January 31, 2001.....	11.75%	(1)		27	42
August 15, 2001.....	10.75%	(1)		15	28
January 11, 2002.....	11.00%	(1)		41	300
March 1, 2002.....	10.50%	(1)		60	250
July 29, 2005.....		(2)	Callable..... USD 350	540	493
September 3, 2007.....	5.40%	(3)	Callable.....	400	-
September 3, 2008.....	5.45%	(4)	Callable.....	100	-
July 7, 2009.....	6.05%	(5)	Callable.....	175	175
October 12, 2009.....	6.00%	(6)	Callable.....	150	150
April 26, 2011.....	8.20%	(7)	Callable.....	100	100
September 12, 2011.....	6.50%	(8)	Callable.....	350	350
October 24, 2011.....	6.75%	(9)	Callable..... USD 300	463	422
June 4, 2012.....	6.75%	(10)	Callable.....	500	500
November 14, 2014.....	10.00%			200	200
June 8, 2023.....	9.30%			110	110
October 1, 2083.....		(11)	Callable.....	250	250
June 6, 2085.....		(12)	Callable..... USD 300	463	422
Royal Trust Corporation of Canada					
November 9, 1998.....		(1)	¥ 6,700	-	78
January 27, 1999.....		(1)	¥ 8,000	-	94
				\$4,087	\$4,227

- (1) During the year, the bank exchanged subordinated debentures totaling \$719 million for an equal amount of senior notes or guaranteed investment certificates ranking equally with deposits but otherwise, carrying the same terms and conditions.

(2) Interest at a rate of .0625% above the U.S. dollar one-month LIBOR.

(3) Interest at a rate of 5.40% until September 3, 2002 and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.

(4) Interest at a rate of 5.45% until September 3, 2003 and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.

(5) Interest at a rate of 6.05% until July 7, 2004 and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.

(6) Interest at a rate of 6.0% until October 12, 2004 and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.

(7) Interest at a rate of 8.20% until April 26, 2006 and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
- (8) Interest at a rate of 6.5% until September 12, 2009 and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.

(9) Interest at a rate of 6.75% until October 24, 2006 and thereafter at a rate of 1.00% above the U.S. dollar six-month LIBOR.

(10) Interest at a rate of 6.75% until June 4, 2007 and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.

(11) Interest at a rate of .40% above the 30-day Bankers' Acceptance rate.

(12) Interest at a rate of .25% above the U.S. dollar three-month LIMEAN. In the event of a reduction of the annual dividend declared by the bank on its Common Shares, the interest payable on the debentures is reduced pro-rata to the dividend reduction and the interest reduction is payable with the proceeds from the sale of Common Shares.

repayment schedule

The aggregate sinking fund requirements and maturities of the debentures, assuming the earliest possible dates of maturity under the terms of issue, are as follows:	1998
	Under 1 year.....
	1 to 5 years.....
	5 to 10 years.....
	Over 10 years.....
	\$ 123
	163
	1,040
	2,761
	\$4,087

note 11: capital stock

Authorized capital stock

Preferred – An unlimited number of First Preferred Shares and Second Preferred Shares without nominal or par value, issuable in series; the aggregate consideration for which all the First Preferred Shares and all the Second Preferred Shares may be issued may not exceed \$5 billion in each case.

Common – An unlimited number of shares without nominal or par value provided that the aggregate consideration for which all common shares may be issued shall not exceed \$10 billion.

outstanding capital stock

	1998			1997			1996		
	NUMBER OF SHARES (000'S)	AMOUNT	DIVIDENDS DECLARED PER SHARE	NUMBER OF SHARES (000'S)	AMOUNT	DIVIDENDS DECLARED PER SHARE	NUMBER OF SHARES (000'S)	AMOUNT	DIVIDENDS DECLARED PER SHARE
First Preferred (1)									
Non-cumulative Redeemable									
Series E (2)	1,500	\$ 150	\$5.00	1,500	\$ 150	\$3.64	1,500	\$ 150	\$5.00
Non-cumulative Series F (3)	6,000	150	2.25	6,000	150	2.25	6,000	150	2.25
Non-cumulative Series G (4)	10,000	250	2.13	10,000	250	2.13	10,000	250	2.13
Non-cumulative Series H (5)	12,000	300	2.25	12,000	300	2.25	12,000	300	2.25
U.S.\$ Non-cumulative Series I (6)	8,000	308	U.S. 1.91	8,000	282	U.S. 1.91	8,000	268	U.S. 1.91
Non-cumulative Series J (7)	12,000	300	1.78	12,000	300	1.78	12,000	300	1.78
U.S.\$ Non-cumulative Series K (8)	10,000	386	U.S. 1.58	10,000	352	U.S. 1.58	10,000	334	U.S. 1.58
Non-cumulative Series N (9)	12,000	300	0.68	–	–	–	–	–	–
		<u>2,144</u>			<u>1,784</u>			<u>1,752</u>	
Common									
Balance at beginning of year	308,335	2,907		310,529	2,876		314,155	2,910	
Issued under the Executive Stock Option Plan	456	18		173	5		5	–	
Issued on the acquisition of Richardson Greenshields Limited	–	–		1,274	44		–	–	
Issued on the acquisition of RBC Dominion Securities Limited common shares	–	–		482	20		–	–	
Purchased for cancellation (10)	–	–		(4,123)	(38)		(3,631)	(34)	
Balance at end of year	<u>308,791</u>	<u>2,925</u>	\$1.76	<u>308,335</u>	<u>2,907</u>	\$1.52	<u>310,529</u>	<u>2,876</u>	\$1.33
		<u>\$5,069</u>			<u>\$4,691</u>			<u>\$4,628</u>	

(1) All redemption and purchase for cancellation options on preferred shares are subject to the consent of the Superintendent of Financial Institutions Canada. Series E, G, H and J are redeemable by the bank on and after the dates specified below (i) in cash, at a price per share of \$25 or (ii) by the conversion of each such share to be redeemed into that number of Common Shares determined by dividing \$25 by 95% of the average market price of the Common Shares at such time. On and after the dates specified below, subject to the right of the bank to redeem or to find substitute purchasers, each share of the Series G, H and J will be convertible quarterly at the option of the holder into that number of Common Shares determined by dividing \$25 by 95% of the average market price of the Common Shares at such time. Series I and K are redeemable by the bank on and after the dates specified below (i) in cash, at a price per share of U.S.\$25 or (ii) by the conversion of each such share to be redeemed into that number of Common Shares determined by dividing U.S.\$25 by the U.S. dollar equivalent of 95% of the average market price of the Common Shares at such time. On and after the dates specified below, subject to the right of the bank to redeem or to find substitute purchasers, each share of Series I and K will be convertible quarterly at the option of the holder into that number of Common Shares determined by dividing U.S.\$25 by the U.S. dollar equivalent of 95% of the average market price of the Common Shares at such time.

(2) During 1997, a special resolution was passed to amend the rights, privileges, restrictions and conditions attached to the **Series E**. The shareholders are entitled to receive, as and when declared, a monthly non-cumulative cash dividend which (i) floats in relation

to the bank's Canadian prime rate and (ii) is adjusted upwards or downwards based on changes in market trading value. The annual dividend rate applicable to any month will in no event be less than the sum of .25% plus 55% or greater than the sum of .25% plus 75% of the average prime rate. Such shares are redeemable by the bank at a price per share of \$100 and the bank may, at any time, purchase for cancellation such shares at a price per share not exceeding \$100.

(3) The dividend on the **Series F** is payable quarterly at a rate equal to the greater of (i) \$0.5625 per share and (ii) 81.522% of the dividend per Common Share for the same quarter. Such shares are not redeemable by the bank prior to October 31, 1999, but thereafter are redeemable as discussed in footnote (1) above.

(4) The dividend on the **Series G** is payable quarterly at a rate of \$0.53125 per share until October 31, 1999 and, thereafter, is payable quarterly at a rate equal to the greater of (i) \$0.53125 per share and (ii) 81.522% of the dividend per Common Share for the same quarter. Such shares are not redeemable by the bank prior to October 31, 1999, but thereafter are redeemable as discussed in footnote (1) above. On and after October 31, 2000, such shares are convertible at the option of the holder into Common Shares as discussed in footnote (1) above.

(5) The dividend on the **Series H** is payable quarterly at a rate of \$0.5625 per share. Such shares are not redeemable by the bank prior to August 24, 2001, but thereafter are redeemable as discussed in footnote (1) above. On and after November 24, 2001, such shares are convertible at the option of the holder into Common Shares as discussed in footnote (1) above.

- (6) The dividend on the **Series I** is payable quarterly at a rate of U.S.\$0.4766 per share. Such shares are not redeemable by the bank prior to November 24, 2001, but thereafter are redeemable as discussed in footnote (1) above. On and after February 24, 2002, such shares are convertible at the option of the holder into Common Shares as discussed in footnote (1) above.

(7) The dividend on the **Series J** is payable quarterly at a rate of \$0.44375 per share. Such shares are not redeemable by the bank prior to May 24, 2003, but thereafter are redeemable as discussed in footnote (1) above. On and after November 24, 2003, such shares are convertible at the option of the holder into Common Shares as discussed in footnote (1) above.

(8) The dividend on the **Series K** is payable quarterly at a rate of U.S.\$0.39375 per share. Such shares are not redeemable by the bank prior to May 24, 2003, but thereafter are redeemable as discussed in footnote (1) above. On and after November 24, 2003, such shares are convertible at the option of the holder into Common Shares as discussed in footnote (1) above.

(9) The dividend on the **Series N** is payable quarterly at a rate of \$0.29375 per share. Such shares are not redeemable by the bank prior to August 24, 2003, but thereafter are redeemable (i) in cash, at a price per share of \$26.00, if redeemed during the 12 months commencing August 24, 2003, and decreasing by \$0.25 each twelve month period thereafter to a price per share of \$25.00 or

(ii) by the conversion of each such share to be redeemed into that number of Common Shares determined by dividing the then applicable redemption price by the greater of \$2.50 and 95% of the average market price of the Common Shares at such time. On or after August 24, 2008, subject to the right of the bank to redeem or to find substitute purchasers, each share will be convertible quarterly at the option of the holder into that number of Common Shares determined by dividing \$25 by the greater of \$2.50 and 95% of the average market price of the Common Shares at such time.

(10) In September 1996, the bank announced its intention to repurchase up to 31,272,424 Common Shares during the 12 months ending September 25, 1997. Purchases were made in the open market at market prices through the facilities of the Toronto and Montreal stock exchanges, and in accordance with stock exchange requirements. The amount and timing of purchases were determined by the bank. Premiums that were paid to acquire the shares over and above the average carrying value were charged to retained earnings. In 1997, 4,123,200 Common Shares (1996 – 3,631,000 common shares) were repurchased at a cost of \$198 million (1996 – \$170 million), common stock outstanding being reduced by \$38 million (1996 – \$34 million) and retained earnings by \$160 million (1996 – \$136 million).

Regulatory capital

The bank is subject to regulatory capital requirements defined by the Superintendent of Financial Institutions Canada. The two measures of regulatory capital strength are risk-adjusted capital ratios and the assets-to-capital multiple. These measures are based on standards issued by the Bank for International Settlements (BIS).

Risk-adjusted capital ratios are calculated by dividing Tier 1 (representing more permanent forms of capital) and Total capital by risk-adjusted assets. Risk-adjusted assets are determined by applying risk-weights to on-balance sheet assets and off-balance sheet financial instruments according to the relative credit risk of the counterparty. Effective January 1, 1998 a market risk component was added to risk-adjusted assets as prescribed by the Superintendent. Banks are required to maintain a minimum Tier 1 and Total capital ratio of 4% and 8%, respectively. As at October 31, 1998, the Tier 1 and Total capital ratios were 7.4% and 10.5% respectively, (1997 – 6.8% and 10.0%, respectively).

The assets-to-capital multiple is calculated by dividing the bank's total assets, including specified off-balance sheet financial instruments by its Total capital. Total assets should be no greater than 20 times Total capital. At October 31, 1998, the assets-to-capital multiple was 16.7 times (1997 – 17.1 times).

Executive stock option plan

The bank offers a stock option plan for certain key employees. Under this plan, options are periodically granted to purchase common shares at prices not less than the market price of such shares immediately prior to the grant date. In accordance with the intrinsic value method, there is no compensation cost recognized for the options. The options vest over a four year period and are exercisable for periods not exceeding ten years. When options are exercised, the proceeds received are credited to common shares.

weighted average remaining contractual life of 7.7 years; 5,733,885 options (517,702 exercisable) had exercise prices ranging from \$49.60 to \$79.28, or \$66.39 on average, and a weighted average remaining contractual life of 9.6 years.

The fair value of options granted in 1998, 1997 and 1996 is estimated using an option pricing model with the following assumptions: (i) risk-free interest rate of 4.75% (1997 – 6.76%; 1996 – 7.24%), (ii) expected option life of 10 years, (iii) expected volatility of 23% (1997, 1996 – 18%), and (iv) expected dividends of 2.78% (1997 – 3.67%; 1996 – 4.14%). The fair value of each option granted in 1998, 1997 and 1996 was \$21.40, \$11.90 and \$6.18, respectively.

stock options

	1998		1997		1996	
	NUMBER OF SHARES (IN THOUSANDS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES (IN THOUSANDS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES (IN THOUSANDS)	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of year	5,005	\$41.40	2,476	\$31.02	472	\$29.58
Granted	3,229	\$79.28	2,775	\$50.96	2,045	\$31.35
Exercised	(456)	\$37.72	(173)	\$31.16	(5)	\$30.02
Cancelled	(67)	\$60.30	(73)	\$43.34	(36)	\$31.35
Outstanding at end of year	7,711	\$57.32	5,005	\$41.40	2,476	\$31.02
Exercisable at end of year	1,449	\$37.68	729	\$30.75	166	\$29.84
Available for grant	7,155		4,817		7,519	

note 12: income taxes

	1998	1997	1996
Reported in income	\$1,175	\$1,090	\$880
Reported in retained earnings			
Unrealized foreign currency translation gains and losses, net of hedging activities.....	(299)	(158)	12
Adoption of the Impaired Loans accounting standard	—	—	(55)
Total income taxes	<u>\$ 876</u>	<u>\$ 932</u>	<u>\$837</u>
Current income taxes			
Domestic			
Federal	\$ 326	\$ 313	\$303
Provincial	216	232	218
	542	545	521
Foreign	153	158	102
	695	703	623
Deferred income taxes			
Domestic			
Federal	166	200	206
Provincial	15	29	8
	181	229	214
Total income taxes	<u>\$ 876</u>	<u>\$ 932</u>	<u>\$837</u>

reconciliation to statutory rate

	1998		1997	1996
Income taxes at statutory rate of 42.9%	\$1,319	42.9%	\$1,221	\$1,012
Increase (decrease) in income taxes resulting from:				
Lower average tax rate applicable to subsidiaries	(167)	(5.4)	(142)	(153)
Tax-exempt income from securities, primarily				
loan substitute securities	(10)	(0.4)	(9)	(17)
Other	33	1.1	20	38
	<u>\$1,175</u>	<u>38.2%</u>	<u>\$1,090</u>	<u>\$ 880</u>

deferred income taxes (timing differences)

	1998	1997
Deferred income tax asset		
Allowance for credit losses	\$ 364	\$ 319
Tax loss carryforwards	233	250
Premises and equipment	118	89
Interest on impaired loans	—	75
Other	284	341
	999	1,074
Deferred income tax liability		
Pension expense	(128)	(125)
Other	(141)	(75)
	(269)	(200)
Net deferred income tax asset	<u>\$ 730</u>	<u>\$ 874</u>

The bank has determined that it is virtually certain that its net deferred income tax asset will be realized through a combination of future reversals of timing differences and taxable income.

Foreign earnings of certain subsidiaries would be taxed only upon their repatriation to Canada. The bank has not

recognized a deferred tax liability for these undistributed earnings as management does not currently expect them to be repatriated. Taxes that would be payable if all foreign subsidiaries' accumulated unremitted earnings were repatriated are estimated at \$696 million as at October 31, 1998 (1997 – \$615 million).

note 13: postretirement benefits

funded status of pension plans

	1998	1997
Accumulated benefit obligation		
Vested	\$2,826	\$2,415
Non-vested.....	46	42
	2,872	2,517
Effect of future salary increases	415	417
Projected benefit obligation (1).....	3,315	2,936
Pension fund assets, at adjusted market values (2)	3,631	3,418
Funding excess	316	482
Net unrecognized gains	(4)	(218)
Unrecognized transition obligation (funding excess).....	4	(2)
Other	(23)	24
Prepaid pension cost.....	\$ 293	\$ 286

(1) A decrease of 50 basis points (1997 – 150 basis points) in the weighted-average discount rate to reflect the rate at which the pension benefit obligation could be effectively settled at the end of the fiscal year would increase the projected benefit obligation to \$3,626 million at October 31, 1998 (1997 – \$3,359 million).

(2) Pension fund assets are carried at adjusted market values, where adjustments are made to bring the value of the assets to market value over a three year period. The actual market value of the assets at October 31, 1998 is \$3,673 million (1997 – \$3,695 million). Pension fund assets at October 31, 1998 are comprised of equity securities (47%), bonds and debentures (48%), short-term investments (4%), and other investments (1%).

The transition obligation (funding excess) and net unrecognized gains are amortized to pension expense on a straight-line basis over the expected average remaining service lives of the employees covered by the plans. Assumptions used to determine the present value of the projected benefit obligation include a weighted-average discount rate of 7.5% (1997 – 8%; 1996 – 8%) and a weighted-average rate of future salary increases of 5.1% (1997 – 5.1%; 1996 – 5.1%). The assumed weighted-average rate of return on pension fund assets is 7.5% (1997 – 8%; 1996 – 8%).

pension expense

	1998	1997	1996
Cost of benefits accrued during the year	\$ 86	\$ 81	\$ 68
Interest expense on projected benefit obligation	228	205	185
Actual return on pension fund assets	(450)	(512)	(387)
Net amortization and deferral	219	281	192
Net pension expense	\$ 83	\$ 55	\$ 58

Postretirement health and dental care and life insurance benefits expense was \$12 million in 1998 (1997 – \$9 million; 1996 – \$9 million).

note 14: commitments and contingencies

Financial instruments with contractual amounts
representing credit risk

The primary purpose of these commitments is to ensure that funds are available to a customer as required. The bank's policy for requiring collateral security with respect to these instruments and the types of collateral security held are generally the same as for loans, as described in note 1.

Guarantees and standby letters of credit, which represent irrevocable assurances that the bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. *Documentary and commercial letters of credit*, which are written undertakings by the bank on behalf of a customer authorizing a third party to

draw drafts on the bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate.

In *securities lending* transactions, the bank acts as an agent for the owner of a security, who agrees to lend the security to a borrower for a fee, under the terms of a pre-arranged contract. The borrower must fully collateralize the security loan at all times.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, bankers' acceptances, guarantees or letters of credit.

financial instruments with contractual amounts representing credit risk

	1998	1997
Guarantees and standby letters of credit.....	\$ 13,300	\$ 11,651
Documentary and commercial letters of credit	796	1,072
Securities lending.....	22,602	23,237
Commitments to extend credit		
Original term to maturity of one year or less	80,948	68,705
Original term to maturity of more than one year.....	42,119	35,594
Note issuance/revolving underwriting facilities.....	110	224
	<u>\$159,875</u>	<u>\$140,483</u>

Lease commitments

Minimum future rental commitments for buildings under long-term non-cancellable leases for the next five years are shown below. Annual rental commitments after 2003 are in decreasing amounts.

lease commitments

1999.....	\$205
2000	175
2001.....	140
2002.....	114
2003.....	93

Building rent expense, net of property rental income, included in Non-interest expenses for the year ended October 31, 1998 was \$244 million (1997 – \$317 million; 1996 – \$275 million).

Litigation

Various legal proceedings are pending which challenge certain practices or actions of the bank and its subsidiaries. Many of these proceedings are loan-related and are in reaction to steps taken by the bank and its subsidiaries to collect delinquent loans and enforce rights in collateral securing such loans. Management considers that the aggregate liability resulting from these proceedings will not be material.

Pledged assets

Securities with a carrying value of \$26.4 billion (1997 – \$23.9 billion) have been pledged as collateral for various types of funding transactions including obligations related to assets sold under repurchase agreements and obligations related to securities sold short. In addition, assets with a carrying value of \$1.8 billion (1997 – \$1.6 billion) have been deposited as collateral in order to participate in clearing and payment systems and depositories or to have access to the facilities of central banks in foreign jurisdictions.

The Year 2000 issue

The Year 2000 issue arises from the fact that many computer systems express years by using two digits rather than four, with the assumption that the first two digits are always "19". Such systems, if not modified or replaced, could misinterpret the year before and after January 1, 2000 (e.g. read "00" as the year 1900 rather than the year 2000). The results could range from miscalculations to system failure causing a temporary inability to process transactions or engage in normal business activities.

Due to the general uncertainty inherent in the Year 2000 issue, resulting in part from the uncertainty of the Year 2000 readiness of other parties, the bank is unable to determine at this time whether the Year 2000 issue will have a material and adverse impact on the bank's results of operations, liquidity and financial condition.

note 15: derivative financial instruments

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity or commodity instrument or index.

Derivatives held or issued for trading purposes

Most of the bank's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers at competitive prices to enable them to transfer, modify or reduce current or expected risks. Trading involves market-making, positioning and arbitrage activities. Market-making involves quoting bid and offer prices to other market participants with the intention of generating revenues based on spread and volume. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage activities involve identifying and profiting from price differentials between markets and products. The bank does not deal, to any significant extent, in leveraged derivative transactions. These transactions contain a multiplier which, for any given change in market prices, could cause the change in the transaction's fair value to be significantly different from the change in fair value that would occur for a similar derivative without the multiplier.

Derivatives held or issued for non-trading purposes

The bank also uses derivatives in connection with its own asset/liability management activities, which include hedging and investment activities.

The bank uses derivatives, in addition to securities, in its management of natural mismatch positions. Interest rate swaps are used to adjust exposure to interest rate risk by modifying the repricing or maturity characteristics of existing and/or anticipated assets and liabilities. At October 31, 1998, the level of interest rate derivatives in place to hedge anticipated transactions, and accounted for as a hedge, was not material. Purchased interest rate options are used to hedge redeemable deposits and other options embedded in consumer products. Written options are used in the bank's asset/liability management activities when specifically linked to a purchased option in the form of a collar. The amount of the bank's deferred gains and losses associated with these non-trading derivatives was not material at October 31, 1998.

Derivative product types

The bank uses the following derivative financial instruments for both trading and non-trading purposes:

Swaps are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period. For interest rate swaps, fixed and floating interest payments are exchanged based on a notional amount. Cross currency swaps involve the exchange of fixed or floating interest payments in one currency for the receipt of fixed or floating interest payments in another currency. Cross currency interest rate swaps involve the exchange of both interest and principal amounts in two different currencies.

Forwards and futures are contractual obligations to buy or sell a financial instrument on a future date at a specified price. Forward contracts are effectively tailor-made agreements that

are transacted between counterparties in the over-the-counter market, whereas futures are standardized contracts that are transacted on regulated exchanges.

Options are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option) by or at a set date, a specified amount of a financial instrument at a predetermined price. The seller receives a premium from the purchaser for this right.

Derivatives – notional amounts and replacement cost

The tables below provide the notional amounts and gross positive replacement cost of the bank's derivative transactions. Notional amounts, which are off-balance sheet, serve as a point of reference for calculating payments and are a common measure of business volume. The gross replacement cost of derivatives represents the total current replacement value of all outstanding transactions in a gain position, before factoring in the impact of master netting agreements.

Derivative related credit risk

Credit risk from derivative transactions is generated by the potential for the counterparty to default on its contractual obligations when one or more transactions have a positive market value to the bank. This market value is referred to as "replacement cost" since it is an estimate of what it would cost to replace transactions at prevailing market rates if a default occurred.

For internal risk management purposes, the credit risk arising from a derivative transaction is defined as the sum of the replacement cost plus an add-on which is an estimate of the potential change in the market value of the transaction through to maturity. The add-on is determined by statistically based models which project the expected volatility of the variable(s) underlying the derivative whether interest rate, foreign exchange rate, equity or commodity price. Both the replacement cost and the add-on are continually re-evaluated over the life of each transaction to ensure that sound credit risk valuations are used.

Netting is a technique which can reduce credit exposure from derivatives and is generally facilitated through the use of master netting agreements. The two main categories of netting are close-out netting and settlement netting. Under the close-out netting provision, if the counterparty defaults, the bank has the right to terminate all transactions covered by the master agreement at the then prevailing market values and to sum the resulting market values, offsetting negative against positive values, to arrive at a single "net" amount owed by either the counterparty or the bank. Under the settlement netting provision, all payments and receipts in the same currency and due on the same day between specified pairs of bank and counterparty units are netted, generating a single payment in each currency, due either by the bank or the counterparty unit.

note 15: derivative financial instruments (continued)

Derivative related credit risk (continued)

The bank actively encourages counterparties to enter into master netting agreements. However, measurement of the bank's credit exposure arising out of derivative transactions is not reduced to reflect the effects of netting unless the enforceability of that netting is supported by appropriate legal analysis as documented in bank policy. Further development of netting policy is a key objective in the management of derivative credit risk.

To further manage derivative related counterparty credit exposure, the bank enters into agreements containing mark-to-market cap provisions with some counterparties. Under such provisions, the bank has the right to request that the counterparty pay down or collateralize the current market value of its derivatives position with the bank. The use of collateral does not currently represent a significant credit mitigation technique for the bank in managing derivative related credit risk and thus the amount of collateral held at October 31, 1998 is not material.

The bank subjects its derivative related credit risks to the same credit approval, limit and monitoring standards that it uses for managing other transactions that create credit exposure. This includes evaluation of counterparties as to creditworthiness, and managing the size, diversification and maturity structure of the portfolio. Credit utilization for all products is compared with established limits on a continual basis and is subject to a standard exception reporting process. The bank utilizes a single internal rating system for all credit risk exposure. In most cases, these internal ratings approximate the external risk ratings of public rating agencies. The table below shows replacement cost, both before and after the impact of netting, of the bank's derivatives by risk rating and by counterparty type. During 1998 and 1997, neither the bank's actual credit losses arising from derivative transactions nor the level of impaired derivative contracts were significant.

replacement cost of derivatives by risk rating and by counterparty type

	RISK RATING (1)					COUNTERPARTY TYPE (2)			
	AAA, AA	A	BBB	BB OR LOWER	TOTAL	BANKS	OECD GOVERNMENTS	OTHER	TOTAL
Gross positive replacement cost (3)	\$14,710	\$12,176	\$3,385	\$1,229	\$31,500	\$23,178	\$1,613	\$6,709	\$31,500
Impact of master netting agreements	(6,358)	(6,134)	(855)	(179)	(13,526)	(12,200)	—	(1,326)	(13,526)
Replacement cost (after netting agreements)	\$ 8,352	\$ 6,042	\$2,530	\$1,050	\$17,974	\$10,978	\$1,613	\$5,383	\$17,974
Replacement cost (after netting agreements) – 1997	\$ 4,103	\$ 4,187	\$1,747	\$ 472	\$10,509	\$ 6,534	\$ 762	\$3,213	\$10,509

(1) The bank's internal risk ratings for major counterparty types approximate those of public rating agencies. Ratings of AAA, AA, A and BBB represent investment grade ratings and ratings of BB or lower represent non-investment grade ratings.

(2) Counterparty type defined in accordance with the capital adequacy requirements of the Superintendent of Financial Institutions Canada.

(3) Represents the total current replacement value of all outstanding contracts in a gain position, before factoring in the impact of master netting agreements.

replacement cost of derivatives by term to maturity (1)

	TERM TO MATURITY						1998			1997	
	UNDER 3 MONTHS	3-6 MONTHS	6-12 MONTHS	1-3 YEARS	3-5 YEARS	OVER 5 YEARS (2)	TOTAL	TRADING	OTHER THAN TRADING	TRADING	OTHER THAN TRADING
Interest rate contracts											
Forward rate agreements	\$ 35	\$ 11	\$ 9	\$ —	\$ —	\$ —	\$ 55	\$ 55	\$ —	\$ 31	\$ 1
Swaps	307	332	415	2,008	1,668	1,987	6,717	6,117	600	4,658	600
Options purchased	1	3	6	66	43	241	360	359	1	234	4
Foreign exchange contracts											
Forward contracts	10,144	5,262	3,552	1,128	326	75	20,487	20,466	21	7,994	7
Cross currency swaps	8	3	9	31	62	71	184	184	—	104	3
Cross currency interest rate swaps	113	17	117	528	255	194	1,224	878	346	669	131
Options purchased	924	381	588	99	19	6	2,017	2,012	5	818	2
Other contracts (3)	101	69	201	43	39	3	456	456	—	309	—
Total before netting	\$11,633	\$6,078	\$4,897	\$3,903	\$2,412	\$2,577	\$31,500	\$30,527	\$973	\$14,817	\$748
Impact of master netting agreements											
With intent to settle net or simultaneously (4)							(131)				
Without intent to settle net or simultaneously (5)							(13,395)				
							\$17,974				

notional amount of derivatives by term to maturity

	TERM TO MATURITY						1998			1997	
	UNDER 3 MONTHS	3-6 MONTHS	6-12 MONTHS	1-3 YEARS	3-5 YEARS	OVER 5 YEARS (2)	TOTAL	TRADING	OTHER THAN TRADING	TRADING	OTHER THAN TRADING
Over-the-counter (OTC) contracts											
Interest rate contracts											
Forward rate agreements.....	\$ 48,027	\$ 11,924	\$ 7,323	\$ 424	\$ —	\$ —	\$ 67,698	\$ 67,628	\$ 70	\$ 51,017	\$ 1,583
Swaps.....	53,096	44,287	62,610	149,779	76,053	58,785	444,610	388,786	55,824	321,111	43,451
Options purchased.....	4,598	3,627	3,178	25,498	5,885	4,426	47,212	45,956	1,256	23,656	1,240
Options written.....	4,525	4,649	5,014	24,574	6,249	4,173	49,184	47,911	1,273	27,176	1,126
Foreign exchange contracts											
Forward contracts.....	470,641	138,596	85,180	17,800	3,870	2,118	718,205	711,389	6,816	585,992	5,249
Cross currency swaps.....	384	492	74	1,137	657	1,082	3,826	3,368	458	3,587	458
Cross currency interest rate swaps.....	1,799	1,549	5,116	12,451	6,599	6,675	34,189	27,857	6,332	20,664	2,844
Options purchased.....	29,910	13,048	13,093	1,558	247	100	57,956	57,708	248	53,155	107
Options written.....	35,789	11,638	15,432	1,914	161	35	64,969	64,725	244	61,689	91
Other contracts (3).....	1,724	1,383	1,012	739	361	225	5,444	5,444	—	5,021	—
Exchange-traded contracts											
Interest rate contracts											
Futures — long positions.....	5,048	4,419	6,108	3,441	3	—	19,019	19,019	—	25,621	953
Futures — short positions.....	8,540	9,458	5,490	2,731	46	5	26,270	26,270	—	14,253	332
Options purchased.....	6,320	3,711	—	—	—	—	10,031	10,031	—	6,194	—
Options written.....	5,173	7,643	736	154	—	—	13,706	13,706	—	8,232	—
Foreign exchange contracts											
Futures — long positions.....	106	—	—	—	—	—	106	106	—	250	—
Futures — short positions.....	—	—	—	—	—	—	—	—	—	112	—
Other contracts (3).....	18,151	2,838	2,215	2,565	24	—	25,793	25,793	—	3,884	—
	<u>\$693,831</u>	<u>\$259,262</u>	<u>\$212,581</u>	<u>\$244,765</u>	<u>\$100,155</u>	<u>\$77,624</u>	<u>\$1,588,218</u>	<u>\$1,515,697</u>	<u>\$ 72,521</u>	<u>\$1,211,614</u>	<u>\$57,434</u>

- (1) Represents the total current replacement value of all outstanding contracts in a gain position, before factoring in the impact of master netting agreements. Exchange-traded contracts are excluded from this presentation as the credit risk associated with these instruments is minimal since they are settled in cash on a daily basis. Written options are excluded as they represent obligations of the bank and as such do not attract credit risk.
- (2) Includes contracts maturing in over 10 years with a notional value of \$10,320 million and related gross positive replacement cost of \$400 million.

- (3) Comprised of precious metals, commodity and equity-linked contracts
- (4) Impact of offsetting credit exposures on contracts where the bank has both a legally enforceable master netting agreement in place and intends to settle the contracts on either a net basis or simultaneously (1997 — \$50 million).
- (5) Additional impact of offsetting credit exposures on contracts where the bank has a legally enforceable master netting agreement in place but does not intend to settle the contracts on a net basis or simultaneously (1997 — \$5,006 million).

note 16: concentrations of credit risk

Concentrations of credit risk exist if a number of clients are engaged in similar activities, or are located in the same geographic region or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the bank's performance to developments affecting a particular industry or geographic location. Management does not believe that the concentrations described below are unusual.

On-balance sheet assets

Of the \$238 billion in total earning assets as at September 30, 1998, 73% relate to the Canadian market and 12% relate to the United States market (1997 — 72% and 10% respectively). No other country accounts for more than 5% of total earning assets.

Of the \$182 billion in total loans and acceptances as at September 30, 1998, 77% are to borrowers located in Canada (1997 — 80%), with the largest provincial concentrations being Ontario — 39% (1997 — 40%) and British Columbia — 12% (1997 — 13%). No industry accounts for more than 10% of total loans and acceptances.

Off-balance sheet financial instruments

Financial instruments with contractual amounts representing credit risk

Of the \$160 billion in off-balance sheet financial instruments with contractual amounts representing credit risk as at October 31, 1998, approximately 49% relate to Canada, 31% to the United States and 14% to Europe (1997 — 52%, 27% and 14% respectively).

Included in the \$160 billion of these credit instruments

are commitments to extend credit totalling \$123 billion, of which 42% relate to Canada, 35% relate to the United States and 17% relate to Europe (1997 — 45%, 31% and 18% respectively). Of the commitments to extend credit, the largest industry concentrations relate to financial institutions (27%), mining and energy (16%), manufacturing (15%) and transportation (13%) (1997 — 22%, 18%, 17% and 13%, respectively). No other industry sector exceeds 10% of the total.

Derivatives

Credit risk represents the current replacement value of all outstanding over-the-counter derivative contracts in a gain position without factoring in the impact of master netting agreements or the value of any collateral. Credit risk totalled \$31.5 billion and \$15.6 billion as at October 31, 1998 and 1997 respectively. Based on the location of the ultimate counterparty, 41% of this credit risk amount relates to Europe, 22% to the United States, 21% to Canada and 15% to Asia Pacific (1997 — 43%, 21%, 19% and 15% respectively).

The largest concentration by counterparty type of this credit risk exposure is with banks at 72% (1997 — 69%).

note 17: contractual repricing and maturity schedule

The table below details the bank's exposure to interest rate risk as defined and prescribed by the *Canadian Institute of Chartered Accountants* handbook section 3860, "Financial Instruments – Disclosure and Presentation". On and off-balance sheet financial instruments are reported based on the earlier of their contractual repricing date or maturity date. Effective interest rates have been disclosed where applicable. The effective rates shown represent historical rates for fixed rate instruments carried at amortized cost and current market rates for floating rate instruments or instruments carried at fair value.

The table below does not incorporate management's expectation of future events where expected repricing or maturity dates differ significantly from the contractual dates. The bank incorporates these assumptions in the management of its interest rate risk exposure. These assumptions include expected repricing of trading instruments and certain loans and deposits. Taking into account these assumptions on the consolidated contractual repricing and maturity schedule at October 31, 1998 would result in a change in the under one year gap from (\$11.7) billion to \$6.0 billion (1997 – (\$15.5) billion to (\$0.5) billion).

carrying amount by earlier of contractual repricing or maturity date

	IMMEDIATELY RATE SENSITIVE	UNDER 3 MONTHS	3 TO 6 MONTHS	6 TO 12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	NON- INTEREST SENSITIVE	TOTAL
Assets								
Cash resources	\$ –	\$14,308	\$ 336	\$ 496	\$ 5	\$ –	\$ 1,250	\$ 16,395
Effective interest rate	–	5.3%	5.1%	5.3%	4.8%	–		
Securities								
Trading account	–	4,816	1,650	1,449	5,454	5,289	9,889	28,547
Effective interest rate	–	4.4%	5.0%	4.7%	5.0%	5.4%		
Investment account & loan substitute	–	2,207	1,489	3,014	4,261	1,500	381	12,852
Effective interest rate	–	5.4%	5.2%	6.1%	5.7%	7.9%		
Loans	32,191	57,400	10,623	11,163	51,398	2,544	(65)	165,254
Effective interest rate	–	6.3%	6.5%	6.7%	6.9%	7.3%		
Other assets	–	–	–	–	–	–	51,351	51,351
	32,191	78,731	14,098	16,122	61,118	9,333	62,806	274,399
Liabilities								
Deposits	61,189	64,054	16,262	18,327	19,279	894	–	180,005
Effective interest rate	–	4.6%	4.7%	5.0%	6.5%	5.3%		
Obligations related to securities sold short	–	4,373	221	429	2,780	5,130	1,471	14,404
Effective interest rate	–	4.9%	4.7%	4.7%	4.7%	4.7%		
Obligations related to assets sold under repurchase agreements	–	4,737	200	2,046	1,817	–	–	8,800
Effective interest rate	–	4.9%	4.7%	4.7%	4.7%	–		
Other liabilities	–	–	–	–	–	–	55,211	55,211
Subordinated debentures	–	1,328	–	48	663	2,048	–	4,087
Effective interest rate	–	5.7%	–	10.2%	6.8%	7.1%		
Shareholders' equity	150	–	–	400	1,294	300	9,748	11,892
Effective interest rate	–	–	–	8.7%	7.6%	4.7%		
	61,339	74,492	16,683	21,250	25,833	8,372	66,430	274,399
On-balance sheet gap	(29,148)	4,239	(2,585)	(5,128)	35,285	961	(3,624)	–
Off-balance sheet financial instruments (1)								
Derivatives used for asset liability management purposes								
Pay side swaps	–	(15,832)	(180)	(633)	(13,228)	(641)	–	(30,514)
Effective interest rate	–	5.1%	6.3%	7.1%	5.7%	7.9%		
Receive side swaps	–	19,576	1,923	876	5,241	2,898	–	30,514
Effective interest rate	–	5.3%	5.1%	7.0%	6.0%	6.0%		
Derivatives used for trading purposes	–	1,450	7,312	6,440	(4,608)	(998)	(9,596)	–
Effective interest rate	–	6.0%	5.1%	5.1%	5.1%	5.1%		
	–	5,194	9,055	6,683	(12,595)	1,259	(9,596)	–
Total gap	\$(29,148)	\$ 9,433	\$ 6,470	\$ 1,555	\$ 22,690	\$ 2,220	\$(13,220)	\$ –
Canadian dollar	(18,842)	1,895	5,541	(598)	25,197	2,151	(16,181)	(837)
Foreign currency	(10,306)	7,538	929	2,153	(2,507)	69	2,961	837
Total gap	\$(29,148)	\$ 9,433	\$ 6,470	\$ 1,555	\$ 22,690	\$ 2,220	\$(13,220)	\$ –
Canadian dollar – 1997	(13,185)	(2,386)	2,595	(2,641)	22,793	2,551	(9,718)	9
Foreign currency – 1997	(4,988)	4,734	502	(112)	1,725	(1,106)	(764)	(9)
Total gap – 1997	\$(18,173)	\$ 2,348	\$ 3,097	\$(2,753)	\$ 24,518	\$ 1,445	\$(10,482)	\$ –

(1) Represents net notional amounts.

note 18: estimated fair value of financial instruments

The estimated fair values are designed to approximate values at which these instruments could be exchanged in a current transaction between willing parties. However, many of the financial instruments lack an available trading market and therefore, fair values are based on estimates using net present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect varying degrees of risk.

Also, the estimated fair values disclosed do not reflect the value of assets and liabilities that are not considered financial instruments such as "premises and equipment". In addition, the values of other non-financial assets and liabilities, such as intangible values of customer relationships and leases, have been excluded. Furthermore, due to the use of subjective judgment and uncertainties, the aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

derivative financial instruments (1)

	1998				1997	
	AVERAGE FAIR VALUE FOR THE YEAR ENDED (2)		YEAR END FAIR VALUE		YEAR END FAIR VALUE	
	POSITIVE	NEGATIVE	POSITIVE	NEGATIVE	POSITIVE	NEGATIVE
Held or issued for trading purposes						
Interest rate contracts						
Forward rate agreements	\$ 30	\$ 28	\$ 55	\$ 51	\$ 31	\$ 2
Swaps	4,469	4,800	6,117	6,557	4,658	4,792
Options purchased	279	—	359	—	234	—
Options written	—	168	—	224	—	143
	<u>4,778</u>	<u>4,996</u>	<u>6,531</u>	<u>6,832</u>	<u>4,923</u>	<u>4,962</u>
Foreign exchange contracts						
Forward contracts	11,120	9,975	20,466	18,569	7,994	7,800
Cross currency swaps	143	118	184	157	104	105
Cross currency interest rate swaps	710	1,247	878	1,853	669	766
Options purchased	1,150	—	2,012	—	818	—
Options written	—	1,081	—	1,686	—	709
	<u>13,123</u>	<u>12,421</u>	<u>23,540</u>	<u>22,265</u>	<u>9,585</u>	<u>9,380</u>
Other contracts	401	450	456	341	309	381
	<u>\$18,302</u>	<u>\$17,867</u>	<u>\$30,527</u>	<u>\$29,438</u>	<u>\$14,817</u>	<u>\$14,723</u>
Held or issued for other than trading purposes						
Interest rate contracts						
Forward rate agreements			\$ —	\$ —	\$ 1	\$ 1
Swaps			600	469	600	470
Options purchased			1	—	4	—
Options written			—	26	—	23
			<u>601</u>	<u>495</u>	<u>605</u>	<u>494</u>
Foreign exchange contracts						
Forward contracts			21	192	7	148
Cross currency swaps			—	53	3	1
Cross currency interest rate swaps			346	103	131	28
Options purchased			5	—	2	—
Options written			—	1	—	2
			<u>372</u>	<u>349</u>	<u>143</u>	<u>179</u>
			<u>\$ 973</u>	<u>\$ 844</u>	<u>\$ 748</u>	<u>\$ 673</u>
Total gross fair values before netting			\$31,500	\$30,282	\$15,565	\$15,396
Impact of master netting agreements						
With intent to settle net or simultaneously (3)			(131)	(131)	(50)	(50)
Without intent to settle net or simultaneously (4)			(13,395)	(13,395)	(5,006)	(5,006)
Total			<u>\$17,974</u>	<u>\$16,756</u>	<u>\$10,509</u>	<u>\$10,340</u>

(1) The fair values of derivatives are presented on a gross basis before the impact of legally enforceable master netting agreements. The fair values of derivatives are determined using various methodologies including: quoted market prices, where available; prevailing market rates for instruments with similar characteristics and maturities; net present value analysis or other pricing models as appropriate.

(2) Average fair value amounts are calculated based on month end balances.

(3) Impact of offsetting credit exposures on contracts where the bank has both a legally enforceable master netting agreement in place and intends to settle the contracts on either a net basis or simultaneously.

(4) Additional impact of offsetting credit exposures on contracts where the bank has a legally enforceable master netting agreement in place but does not intend to settle the contracts on a net basis or simultaneously.

note 18: estimated fair value of financial instruments (continued)

financial instruments

	1998			1997		
	BOOK VALUE	FAIR VALUE	DIFFERENCE	BOOK VALUE	FAIR VALUE	DIFFERENCE
Financial assets						
Cash resources (1).....	\$ 16,395	\$ 16,395	\$ —	\$ 21,392	\$ 21,392	\$ —
Securities (2).....	41,399	41,505	106	33,037	33,535	498
Loans (3).....	165,254	166,769	1,515	156,267	157,534	1,267
Customers' liability under acceptances (1).....	10,620	10,620	—	10,561	10,561	—
Other assets (4).....	37,285	37,160	(125)	20,054	19,997	(57)
Financial liabilities						
Deposits (5).....	180,005	181,657	(1,652)	173,229	174,462	(1,233)
Acceptances (1).....	10,620	10,620	—	10,561	10,561	—
Obligations related to securities sold short (1).....	14,404	14,404	—	11,152	11,152	—
Obligations related to assets sold under repurchase agreements (1).....	8,800	8,800	—	9,458	9,458	—
Other liabilities (4).....	44,092	44,092	—	25,226	25,226	—
Subordinated debentures (6).....	4,087	4,208	(121)	4,227	4,478	(251)
Fair value in excess of (less than) book value.....			<u>\$ (277)</u>			<u>\$ 224</u>

(1) Due to their short-term maturity, the carrying values of certain on-balance sheet financial instruments are assumed to approximate their fair values.

(2) The estimated fair values of securities are provided in Note 4 to the financial statements. These are based on quoted market prices, when available. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities.

(3) For certain variable rate loans that reprice frequently, fair values are assumed to be equal to the carrying values. The fair values of other loans are estimated through a discounted cash flow calculation that applies market interest rates currently charged for similar new loans to expected maturity amounts (adjusted for expected prepayments where appropriate).

(4) The carrying values of Other assets and Other liabilities approximate their fair values with the exception of derivative financial instruments held or issued for other than trading purposes. The net fair value over book value for these instruments is shown in Other assets. Gross fair value information pertaining to all derivative financial instruments is shown above.

(5) The fair values of deposits with no stated maturity are assumed to be equal to their carrying values. The estimated fair values of fixed rate deposits are determined by discounting the expected cash flows, using market interest rates currently offered for deposits of similar remaining maturities (adjusted for early redemptions where appropriate).

(6) The fair values of the debentures are based on quoted market prices for similar issues, or current rates offered to the bank for debt of the same remaining maturity.

note 19: subsequent events

On November 1, 1998 the bank exchanged virtually all of the 4.65 million Class B shares, originally issued on November 1, 1996 by its wholly-owned subsidiary, Royal Bank DS Holding Inc., for the acquisition of Richardson Greenshields Limited, into 4.8 million Royal Bank of Canada common shares, increasing outstanding common stock by \$170 million.

The bank initiated a process which will result in the acquisition of all of the outstanding participating preferred shares of RBC Dominion Securities Limited held by certain key employees for \$180 million. The acquisition will have an effective date of November 1, 1998 and will reduce the non-controlling interest related to RBC Dominion Securities Limited to nil. The transaction is not expected to have a significant impact on future net income.

note 20: reconciliation of Canadian and United States generally accepted accounting principles

The consolidated financial statements of the bank are prepared in accordance with Canadian generally accepted accounting principles (GAAP), including the accounting requirements of the Superintendent of Financial Institutions Canada. As required by the United States Securities and Exchange Commission, material differences between Canadian and United States GAAP are described below:

condensed U.S. GAAP consolidated statement of income

	1998			1997	1996
	CANADIAN GAAP	ADJUSTMENTS	U.S. GAAP	U.S. GAAP	U.S. GAAP
Net interest income.....	\$ 5,064	\$ —	\$ 5,064	\$ 5,000	\$ 4,623
Other income	4,985	12 (4)	4,997	4,288	3,288
Gross revenues	10,049	12	10,061	9,288	7,911
Provision for credit losses.....	575	—	575	380	570
Non-interest expenses – Canadian GAAP	6,399				
Postretirement benefits other than pensions		59 (2)			
Postretirement benefits		36 (3)			
Other.....		16 (4)			
Non-interest expenses – U.S. GAAP			6,510	6,071	5,167
Net income before income taxes	3,075	(99)	2,976	2,837	2,174
Income taxes and non-controlling interest.....	1,251	47	1,204	1,183	844
Net income	\$ 1,824	\$ (52)	\$ 1,772	\$ 1,654	\$ 1,330
Basic earnings per share	\$5.44	\$(.17)(5)	\$5.27	\$4.94	\$3.78
Fully diluted earnings per share.....	\$5.30	\$(.13)(5)	\$5.17	\$4.86	\$3.78

condensed U.S. GAAP consolidated balance sheet

	1998			1997	1996
	CANADIAN GAAP	ADJUSTMENTS	U.S. GAAP	U.S. GAAP	U.S. GAAP
Assets					
Cash resources	\$ 16,395	\$ —	\$ 16,395	\$ 21,392	\$ 23,567
Securities					
Trading account	28,547	1,041 (7)	29,588	18,551	14,511
Held to maturity	—	1,090 (1)	1,090	1,238	796
Available for sale	—	11,101 (1)	11,101	12,732	25,172
Investment account.....	12,093	(12,093)(1)	—	—	—
Loan substitute	759	—	759	822	782
Loans	165,254	(601)(7)	164,653	156,267	135,791
Other assets	51,351	6,137 (7)	57,488	36,077	26,858
Total Assets	\$274,399	\$ 6,675	\$281,074	\$247,079	\$227,477
Liabilities					
Deposits	\$180,005	\$ —	\$180,005	\$173,229	\$161,817
Other liabilities	78,415	6,709 (7)	85,124	58,988	52,283
Subordinated debentures.....	4,087	—	4,087	4,227	3,627
	262,507	6,709	269,216	236,444	217,727
Shareholders' Equity					
Capital stock					
Preferred	2,144	(44)(6)	2,100	1,747	1,715
Common	2,925	(2)(6)	2,923	2,905	2,874
Net unrealized gains on securities available for sale	—	56 (1)	56	283	349
Retained earnings	6,823	(44)(6)	6,779	5,700	4,812
	11,892	(34)	11,858	10,635	9,750
Total Liabilities and Shareholders' Equity.....	\$274,399	\$ 6,675	\$281,074	\$247,079	\$227,477

note 20: reconciliation of Canadian and United States generally accepted accounting principles (continued)

summary of reconciliation to U.S. GAAP

	1998		1997		1996	
	NET INCOME	SHAREHOLDERS' EQUITY	NET INCOME	SHAREHOLDERS' EQUITY	NET INCOME	SHAREHOLDERS' EQUITY
Canadian GAAP	\$1,824	\$11,892	\$1,679	\$10,390	\$1,430	\$9,414
Reclassification of securities	—	56	—	283	—	349
Postretirement benefits						
other than pensions	(33)	(91)	(31)	(58)	(27)	(27)
Postretirement benefits	(21)	(21)	—	—	—	—
Other	2	22	6	20	2	14
Impaired loans	—	—	—	—	(75)	—
U.S. GAAP	<u>\$1,772</u>	<u>\$11,858</u>	<u>\$1,654</u>	<u>\$10,635</u>	<u>\$1,330</u>	<u>\$9,750</u>

(1) Under Statement of Financial Accounting Standards (SFAS) No. 115 "Accounting For Certain Investments in Debt and Equity Securities", investments in equity securities that have readily determinable fair values and all investments in debt securities must be classified according to one of the following three categories:

1. *Held to Maturity*: Securities that the bank has the positive intent and ability to hold to maturity are reported at amortized cost.
2. *Trading Securities*: Securities that are bought and held principally for resale in the near term are reported at fair value, with unrealized gains and losses included in earnings.
3. *Available for Sale*: Securities not classified as either held to maturity or trading are classified as available for sale and are reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of shareholders' equity.

Under Canadian GAAP, the bank classifies securities held as either investment account or trading account securities. Investment account securities are carried at amortized cost and trading account securities are recorded at estimated current market value. For United States reporting purposes, primarily all investment account securities would be classified as Available for Sale and reported at estimated fair value, with the balance classified as Held to Maturity and reported at amortized cost.

Had the bank reported its investment account securities in accordance with United States GAAP, securities would have increased by \$98 million (1997 – \$495 million; 1996 – \$611 million). The after-tax net unrealized gain of \$56 million (1997 – \$283 million; 1996 – \$349 million) would have been reported as a separate component of shareholders' equity. Gross realized gains and losses from disposal of securities available for sale were \$399 million and \$72 million, respectively for the year ended October 31, 1998 (1997 – \$61 million and \$24 million, respectively; 1996 – \$153 million and \$81 million, respectively).

(2) Under SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" which became effective in the year commencing November 1, 1995 for United States reporting purposes, the bank is required to accrue the costs of postretirement benefits other than pensions over the working lives of employees in a manner similar to pension costs. These benefits are primarily comprised of life insurance, dental care and supplementary health care coverage (in excess of coverage provided under the Canadian health insurance system). Under Canadian GAAP, these costs are charged to income as incurred.

Had the bank accrued for the annual cost of providing postretirement benefits other than pensions in excess of the expenditures already recognized under Canadian GAAP, non-interest expenses for

the year ended October 31, 1998 would have increased by \$59 million (1997 – \$55 million; 1996 – \$48 million). All three years include the impact of the amortization, over an 18 year period, of the actuarially-determined transitional obligation of \$303 million.

(3) SFAS No. 87, "Employers' Accounting For Pensions", requires the assumed discount rate to reflect the rate at which the pension benefit obligation could be effectively settled at the end of the fiscal year. This discount rate is then used to determine the pension expense under U.S. GAAP for the following year.

Had the bank accounted for pension expense in accordance with U.S. GAAP, non-interest expenses for the year ended October 31, 1998 would have increased by \$36 million.

(4) Includes other minor differences between Canadian and U.S. GAAP net income such as restructuring costs and costs incurred to date for the proposed merger.

(5) SFAS No. 128, "Earnings Per Share" which became effective in the year commencing November 1, 1997 for United States reporting purposes, establishes new standards for computing and presenting earnings per share. The dilutive effects of the bank's stock option plan are computed using the treasury stock method. Under Canadian GAAP, net income is increased for the amount of imputed earnings that would have been received by the bank upon exercise of the options.

(6) Includes cumulative adjustment to shareholders' equity arising from current and previous years' GAAP differences.

(7) Includes other adjustments to the balance sheet, principally the additional amounts receivable from brokers, dealers, and other clients and obligations related to securities sold short that would result from the use of trade date rather than settlement date on the balance sheet. Also includes the impact of the adjustments discussed above and cumulative adjustments arising from previous years' GAAP differences.

Recent United States generally accepted accounting standards not yet adopted by the bank

SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities," which becomes effective on November 1, 1999 for the bank, will significantly change the accounting treatment of end-user derivative and foreign exchange contracts by the bank and its customers. Depending on the underlying risk management strategy, these accounting changes could affect reported earnings, assets, liabilities, and shareholders' equity. The bank is in the process of evaluating the potential impact of the new standard.

consolidated balance sheet

AS AT OCTOBER 31 (\$ MILLIONS)	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Assets											
Cash resources.....	\$ 16,395	\$ 21,392	\$ 23,567	\$ 17,710	\$ 16,449	\$ 10,874	\$ 10,938	\$ 8,820	\$ 8,763	\$ 8,187	\$ 10,093
Securities.....	41,399	33,037	43,490	32,705	27,695	24,011	16,146	13,436	9,449	7,989	8,872
Loans											
Residential mortgages.....	57,019	53,316	48,056	45,088	44,086	43,738	32,607	29,103	25,733	22,530	19,502
Personal.....	22,575	20,764	18,361	16,833	16,437	16,418	15,396	14,728	14,392	13,504	12,376
Credit cards.....	1,945	2,324	3,522	3,435	3,321	3,090	2,532	2,562	2,434	2,108	1,811
Business and government.....	63,808	61,221	54,406	49,630	46,283	47,919	48,995	51,351	50,135	45,097	44,092
Reverse repurchase agreements.....	19,907	18,642	11,446	4,591	5,259	5,304	607	600	—	—	—
	165,254	156,267	135,791	119,577	115,386	116,469	100,137	98,344	92,694	83,239	77,781
Acceptances.....	10,620	10,561	7,423	6,300	6,205	6,302	5,737	7,210	10,369	10,701	9,539
Premises and equipment.....	1,872	1,696	1,785	1,870	1,975	2,057	1,914	1,921	1,800	1,509	1,335
Other assets (1).....	38,859	21,821	19,442	17,868	5,369	5,228	3,421	2,621	2,863	3,035	2,434
	\$274,399	\$244,774	\$231,498	\$196,030	\$173,079	\$164,941	\$138,293	\$132,352	\$125,938	\$114,660	\$110,054
Liabilities and shareholders' equity											
Deposits											
Personal.....	\$ 85,910	\$ 86,106	\$ 90,774	\$ 89,929	\$ 85,214	\$ 84,696	\$ 67,648	\$ 64,332	\$ 60,577	\$ 53,851	\$ 46,701
Business and government.....	76,107	64,368	47,799	39,900	36,422	33,781	30,245	29,740	27,335	25,242	27,924
Bank.....	17,988	22,755	23,244	13,662	14,179	11,922	14,329	10,950	11,256	10,093	12,613
	180,005	173,229	161,817	143,491	135,815	130,399	112,222	105,022	99,168	89,186	87,238
Acceptances.....	10,620	10,561	7,423	6,300	6,205	6,302	5,737	7,210	10,369	10,701	9,539
Securities sold short.....	14,404	11,152	8,331	7,128	5,569	5,362	3,628	2,650	1,523	989	620
Repurchase agreements.....	8,800	9,458	16,526	4,090	5,341	2,533	787	641	29	299	188
Other liabilities (1).....	44,591	25,757	24,385	22,461	8,079	9,005	5,307	5,986	6,096	5,584	5,382
Subordinated debentures.....	4,087	4,227	3,602	3,528	3,481	3,410	3,106	3,081	2,299	2,118	2,000
	262,507	234,384	222,084	186,998	164,490	157,011	130,787	124,590	119,484	108,877	102,681
Shareholders' equity											
Capital stock											
Preferred.....	2,144	1,784	1,752	1,990	2,266	2,248	1,594	1,661	1,146	1,151	954
Common.....	2,925	2,907	2,876	2,910	2,910	2,910	2,910	2,726	2,450	2,309	1,961
Retained earnings.....	6,823	5,699	4,786	4,132	3,413	2,772	3,002	3,375	2,858	2,323	2,172
	11,892	10,390	9,414	9,032	8,589	7,930	7,506	7,762	6,454	5,783	5,087
	\$274,399	\$244,774	\$231,498	\$196,030	\$173,079	\$164,941	\$138,293	\$132,352	\$125,938	\$114,660	\$110,054

(1) As the information is not reasonably determinable, amounts for years prior to 1995 have not been restated to reflect the presentation of derivative related amounts on a gross basis.

consolidated statement of income

FOR THE YEAR ENDED OCTOBER 31 (\$ MILLIONS)	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Interest income											
Loans.....	\$11,767	\$ 9,951	\$ 9,856	\$10,057	\$ 8,899	\$8,247	\$ 8,957	\$10,670	\$11,238	\$10,045	\$7,915
Securities.....	2,187	2,347	2,430	2,154	1,629	1,295	1,012	896	1,063	909	657
Deposits with banks.....	822	1,009	922	817	479	321	421	613	666	676	704
	14,776	13,307	13,208	13,028	11,007	9,863	10,390	12,179	12,967	11,630	9,276
Interest expense											
Deposits.....	7,732	6,548	7,115	7,362	5,477	4,995	5,868	7,940	9,081	7,789	5,871
Subordinated debentures.....	339	384	322	335	290	263	272	271	220	206	142
Other.....	1,641	1,375	1,126	792	761	567	322	209	145	108	31
	9,712	8,307	8,563	8,489	6,528	5,825	6,462	8,420	9,446	8,103	6,044
Net interest income	5,064	5,000	4,645	4,539	4,479	4,038	3,928	3,759	3,521	3,527	3,232
Other income	4,985	4,279	3,266	2,738	2,863	2,451	2,102	1,958	1,744	1,657	1,341
Gross revenues	10,049	9,279	7,911	7,277	7,342	6,489	6,030	5,717	5,265	5,184	4,573
Provision for credit losses	575	380	440	580	820	1,750	2,050	605	420	1,380	750
	9,474	8,899	7,471	6,697	6,522	4,739	3,980	5,112	4,845	3,804	3,823
Non-interest expenses											
Human resources.....	3,594	3,365	2,851	2,563	2,675	2,310	2,160	2,072	1,889	1,706	1,467
Occupancy.....	508	559	507	473	500	444	429	394	334	302	284
Equipment.....	585	605	492	506	460	396	377	335	287	238	204
Communications.....	665	587	523	461	450	377	372	372	362	321	266
Restructuring.....	—	—	—	—	—	410	130	—	—	—	—
Other.....	1,047	937	739	654	576	478	449	445	444	389	351
	6,399	6,053	5,112	4,657	4,661	4,415	3,917	3,618	3,316	2,956	2,572
Net income before income taxes	3,075	2,846	2,359	2,040	1,861	324	63	1,494	1,529	848	1,251
Income taxes	1,175	1,090	880	755	655	(5)	(65)	495	555	305	530
Net income before non-controlling interest	1,900	1,756	1,479	1,285	1,206	329	128	999	974	543	721
Non-controlling interest	76	77	49	23	37	29	21	16	9	14	9
Net income	\$ 1,824	\$ 1,679	\$ 1,430	\$ 1,262	\$ 1,169	\$ 300	\$ 107	\$ 983	\$ 965	\$ 529	\$ 712
Preferred share dividends	145	131	144	164	168	154	123	103	96	65	80
Net income available to common shareholders	\$ 1,679	\$ 1,548	\$ 1,286	\$ 1,098	\$ 1,001	\$ 146	\$ (16)	\$ 880	\$ 869	\$ 464	\$ 632

consolidated statement of changes in shareholders' equity

FOR THE YEAR ENDED OCTOBER 31 (\$ MILLIONS)	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Preferred shares											
Balance at beginning of year.....	\$1,784	\$1,752	\$1,990	\$2,266	\$2,248	\$1,594	\$1,661	\$1,146	\$1,151	\$ 954	\$1,012
Issued.....	300	—	—	—	—	612	—	526	—	400	—
Converted.....	—	—	—	—	—	—	—	—	—	(187)	(44)
Redeemed and purchased for cancellation.....	—	—	(237)	(272)	—	—	(102)	(5)	(4)	(11)	(5)
Translation adjustment.....	60	32	(1)	(4)	18	42	35	(6)	(1)	(5)	(9)
Balance at end of year.....	<u>\$2,144</u>	<u>\$1,784</u>	<u>\$1,752</u>	<u>\$1,990</u>	<u>\$2,266</u>	<u>\$2,248</u>	<u>\$1,594</u>	<u>\$1,661</u>	<u>\$1,146</u>	<u>\$1,151</u>	<u>\$ 954</u>
Common shares											
Balance at beginning of year.....	\$2,907	\$2,876	\$2,910	\$2,910	\$2,910	\$2,910	\$2,726	\$2,450	\$2,309	\$1,961	\$1,545
Issued.....	18	69	—	—	—	—	184	276	141	348	416
Purchased for cancellation.....	—	(38)	(34)	—	—	—	—	—	—	—	—
Balance at end of year.....	<u>\$2,925</u>	<u>\$2,907</u>	<u>\$2,876</u>	<u>\$2,910</u>	<u>\$2,910</u>	<u>\$2,910</u>	<u>\$2,910</u>	<u>\$2,726</u>	<u>\$2,450</u>	<u>\$2,309</u>	<u>\$1,961</u>
Retained earnings											
Balance at beginning of year (1).....	\$5,699	\$4,786	\$4,057	\$3,413	\$2,772	\$3,002	\$3,375	\$2,858	\$2,323	\$2,172	\$1,807
Net income.....	1,824	1,679	1,430	1,262	1,169	300	107	983	965	529	712
Dividends — preferred.....	(145)	(131)	(144)	(164)	(168)	(154)	(123)	(103)	(96)	(65)	(80)
— common.....	(543)	(469)	(418)	(371)	(364)	(364)	(361)	(352)	(337)	(313)	(266)
Premium paid on common shares purchased for cancellation.....	—	(160)	(136)	—	—	—	—	—	—	—	—
Share issuance costs.....	(7)	—	—	—	—	(11)	—	(8)	—	(6)	—
Unrealized foreign currency translation gains and losses.....	(5)	(6)	(3)	(8)	4	(1)	4	(3)	3	6	(1)
Balance at end of year.....	<u>\$ 6,823</u>	<u>\$ 5,699</u>	<u>\$4,786</u>	<u>\$4,132</u>	<u>\$3,413</u>	<u>\$2,772</u>	<u>\$3,002</u>	<u>\$3,375</u>	<u>\$2,858</u>	<u>\$2,323</u>	<u>\$2,172</u>
Shareholders' equity											
at end of year.....	<u>\$11,892</u>	<u>\$10,390</u>	<u>\$9,414</u>	<u>\$9,032</u>	<u>\$8,589</u>	<u>\$7,930</u>	<u>\$7,506</u>	<u>\$7,762</u>	<u>\$6,454</u>	<u>\$5,783</u>	<u>\$5,087</u>

(1) Retained earnings at the beginning of 1996 was reduced by \$75 million as a result of the adoption of the Impaired Loans accounting standard.

AS AT OCTOBER 31 (\$ MILLIONS)	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Gross impaired loans											
Beginning of year.....	\$1,819	\$2,376	\$2,944	\$4,424	\$7,582	\$7,056	\$3,924	\$4,203	\$3,516	\$3,549	\$3,973
Net additions (reductions).....	628	81	384	(255)	(1,128)	1,643	3,639	909	1,822	1,063	474
Writeoffs and translations.....	(446)	(638)	(952)	(1,225)	(2,030)	(1,117)	(507)	(1,188)	(1,135)	(1,096)	(898)
End of year.....	<u>\$2,001</u>	<u>\$1,819</u>	<u>\$2,376</u>	<u>\$2,944</u>	<u>\$4,424</u>	<u>\$7,582</u>	<u>\$7,056</u>	<u>\$3,924</u>	<u>\$4,203</u>	<u>\$3,516</u>	<u>\$3,549</u>
Allowance for credit losses											
Specific provisions.....	\$1,176	\$ 932	\$1,091	\$1,439	\$1,962	\$2,667	\$1,867	\$ 449	\$ 451	\$ 440	\$ 582
Country risk provision (1).....	40	34	61	57	69	1,107	1,383	1,459	2,012	2,453	1,940
General provision.....	850	750	700	300	300	550	325	—	—	—	—
Total.....	<u>\$2,066</u>	<u>\$1,716</u>	<u>\$1,852</u>	<u>\$1,796</u>	<u>\$2,331</u>	<u>\$4,324</u>	<u>\$3,575</u>	<u>\$1,908</u>	<u>\$2,463</u>	<u>\$2,893</u>	<u>\$2,522</u>
Net impaired loans											
Total.....	\$(65)	\$103	\$524	\$1,148	\$2,093	\$3,258	\$3,481	\$2,016	\$1,740	\$ 623	\$1,027
Total loans and acceptances.....	175,874	166,828	143,214	125,877	121,591	122,771	105,874	105,554	103,063	93,940	87,320
As a percentage of total loans and acceptances.....	—%	.1%	.4%	.9%	1.7%	2.7%	3.3%	1.9%	1.7%	.7%	1.2%
Provision for credit losses											
Specific provisions.....	\$555	\$330	\$340	\$580	\$1,070	\$1,775	\$2,025	\$ 705	\$420	\$ 280	\$390
Country risk provision.....	(80)	—	(300)	—	—	(250)	(300)	(100)	—	1,100	360
General provision.....	100	50	400	—	(250)	225	325	—	—	—	—
Total.....	<u>\$575</u>	<u>\$380</u>	<u>\$440</u>	<u>\$580</u>	<u>\$ 820</u>	<u>\$1,750</u>	<u>\$2,050</u>	<u>\$ 605</u>	<u>\$420</u>	<u>\$1,380</u>	<u>\$750</u>
Average loans and acceptances.....	\$177,984	\$154,412	\$130,378	\$121,459	\$121,741	\$108,562	\$106,376	\$105,231	\$98,414	\$89,772	\$80,129
As a percentage of average loans and acceptances.....	.32%	.25%	.34%	.48%	.67%	1.61%	1.93%	.57%	.43%	1.54%	.94%
Coverage ratio, excluding LDCs.....	103%	94%	77%	60%	52%	52%	41%	18%	25%	41%	36%

(1) The country risk provision is shown net of that portion of the country risk provision that is in excess of impaired LDC loans, 1998 is \$ nil (1997 — \$402 million; 1996 — \$383 million; 1995 — \$873 million; 1994 — \$871 million; 1993 — \$ nil; 1992 — \$ nil; 1991 — \$50 million; 1990 — \$ nil; 1989 — \$149 million; 1988 — \$114 million).

quarterly highlights

(\$ MILLIONS, EXCEPT PER SHARE AMOUNTS;
TAXABLE EQUIVALENT BASIS)

	1998				1997			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Statement of Income								
Net interest income	\$1,292	\$1,257	\$1,253	\$1,299	\$1,289	\$1,289	\$1,212	\$1,242
Other income	1,154	1,209	1,458	1,164	1,205	1,096	982	996
Provision for credit losses	(100)	(100)	(250)	(125)	(95)	(95)	(95)	(95)
Non-interest expenses	(1,629)	(1,573)	(1,661)	(1,536)	(1,656)	(1,539)	(1,407)	(1,451)
Income taxes	(265)	(309)	(319)	(319)	(273)	(302)	(272)	(275)
Non-controlling interest	(17)	(20)	(17)	(22)	(21)	(21)	(17)	(18)
Net income	<u>\$ 435</u>	<u>\$ 464</u>	<u>\$ 464</u>	<u>\$ 461</u>	<u>\$ 449</u>	<u>\$ 428</u>	<u>\$ 403</u>	<u>\$ 399</u>
Average assets (\$ billions)	\$271.5	\$262.6	\$255.9	\$255.0	\$247.6	\$240.9	\$237.4	\$252.0
Return on equity	16.5%	18.2%	19.7%	19.5%	19.7%	19.3%	19.4%	18.9%
Goodwill-adjusted return on equity (1)	18.2%	20.1%	21.7%	21.7%	22.0%	21.8%	21.7%	20.8%
Balance Sheet								
Assets								
Cash resources and securities	\$ 57,794	\$ 49,371	\$ 48,917	\$ 56,170	\$ 54,429	\$ 62,313	\$ 64,713	\$ 63,209
Residential mortgages	57,019	55,963	54,182	54,336	53,316	51,691	50,406	49,406
Personal loans	22,575	21,890	21,764	21,222	20,764	19,686	20,432	19,504
Credit cards	1,945	1,692	1,499	2,399	2,324	3,665	3,541	3,509
Business and government loans	63,808	65,858	65,312	65,202	61,221	58,275	56,479	54,262
Reverse repurchase agreements	19,907	25,045	27,362	22,172	18,642	15,952	22,473	10,875
Other assets	51,351	40,363	31,198	35,933	34,078	34,247	32,738	33,673
	<u>\$274,399</u>	<u>\$260,182</u>	<u>\$250,234</u>	<u>\$257,434</u>	<u>\$244,774</u>	<u>\$245,829</u>	<u>\$250,782</u>	<u>\$234,438</u>
Liabilities and shareholders' equity								
Personal deposits	\$ 85,910	\$ 84,000	\$ 84,784	\$ 86,411	\$ 86,106	\$ 87,102	\$ 88,839	\$89,760
Other deposits	94,095	92,632	89,844	94,215	87,123	80,132	82,029	70,654
Other liabilities	78,415	67,192	59,571	61,329	56,928	63,292	65,543	60,461
Subordinated debentures	4,087	4,735	4,735	4,769	4,227	5,215	4,549	4,005
Shareholders' equity	11,892	11,623	11,300	10,710	10,390	10,088	9,822	9,560
	<u>\$274,399</u>	<u>\$260,182</u>	<u>\$250,234</u>	<u>\$257,434</u>	<u>\$244,774</u>	<u>\$245,829</u>	<u>\$250,782</u>	<u>\$234,438</u>
Asset Quality								
Provision for credit losses								
Specific provisions	\$ 100	\$180	\$175	\$100	\$45	\$95	\$95	\$95
General provision	—	—	75	25	50	—	—	—
Country risk provision	—	(80)	—	—	—	—	—	—
	<u>\$ 100</u>	<u>\$100</u>	<u>\$250</u>	<u>\$125</u>	<u>\$95</u>	<u>\$95</u>	<u>\$95</u>	<u>\$95</u>
Net impaired loans	\$ (65)	\$ (92)	\$ (386)	\$ (91)	\$103	\$196	\$220	\$287
As a % of loans and acceptances	(.04)%	(.05)%	(.21)%	(.05)%	.06%	.12%	.14%	.20%
Capital Ratios								
Common equity/risk-adjusted assets	6.2%	6.2%	6.2%	5.8%	5.8%	5.6%	5.7%	5.7%
Tier 1	7.4%	7.3%	7.4%	6.7%	6.8%	6.5%	6.5%	6.7%
Total	10.5%	10.7%	10.8%	10.0%	10.0%	9.5%	9.3%	9.1%
Common Share Information								
Shares outstanding (thousands)								
end of period	308,791	308,774	308,730	308,609	308,335	308,316	308,293	308,738
average basic	308,784	308,755	308,671	308,438	308,325	308,305	308,288	310,685
average fully diluted	322,536	322,260	321,927	320,619	318,840	318,866	319,006	320,670
Earnings per share — basic	\$ 1.28	\$ 1.38	\$ 1.40	\$ 1.38	\$1.35	\$1.28	\$1.20	\$1.18
— fully diluted	1.25	1.34	1.36	1.36	1.32	1.26	1.18	1.15
— goodwill-adjusted basic (1)	1.34	1.43	1.44	1.43	1.40	1.33	1.25	1.22
Dividends per share	.46	.46	.42	.42	.39	.39	.37	.37
Book value per share	31.57	30.74	29.82	28.86	27.91	26.98	26.09	25.28
Share price — High	82.00	91.50	92.20	82.50	76.45	68.40	63.00	51.10
Low	57.50	81.50	77.30	71.10	60.85	55.85	49.75	44.00
Close	71.10	82.00	85.40	76.35	75.35	66.15	55.85	49.80
Dividend yield	2.6%	2.1%	2.0%	2.2%	2.3%	2.5%	2.6%	3.1%
Dividend payout ratio	35.8%	33.4%	30.2%	30.4%	28.8%	30.4%	30.8%	31.3%

(1) Goodwill-adjusted return on common shareholders' equity and goodwill-adjusted basic earnings per share are computed by adding back goodwill amortization charged to net income in each quarter and reducing common shareholders' equity by the unamortized goodwill.

consolidated revenues and expenses as a percentage of average assets

	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Average assets (\$ millions) (1)	\$261,300	\$239,500	\$204,900	\$183,800	\$166,700	\$142,500	\$136,200	\$130,100	\$121,700	\$112,700	\$104,300
Net interest income (2)	1.95%	2.10%	2.28%	2.49%	2.72%	2.88%	2.93%	2.95%	2.97%	3.21%	3.17%
Other income	1.91	1.79	1.59	1.49	1.71	1.72	1.54	1.50	1.43	1.47	1.29
Gross revenues	3.86	3.89	3.87	3.98	4.43	4.60	4.47	4.45	4.40	4.68	4.46
Provision for credit losses	(.22)	(.16)	(.21)	(.32)	(.49)	(1.23)	(1.51)	(.47)	(.35)	(1.22)	(.72)
	3.64	3.73	3.66	3.66	3.94	3.37	2.96	3.98	4.05	3.46	3.74
Non-interest expenses	(2.45)	(2.53)	(2.49)	(2.53)	(2.79)	(3.10)	(2.87)	(2.78)	(2.72)	(2.63)	(2.46)
	1.19	1.20	1.17	1.13	1.15	.27	.09	1.20	1.33	.83	1.28
Income taxes (2)	(.46)	(.47)	(.45)	(.43)	(.43)	(.04)	—	(.44)	(.53)	(.35)	(.59)
Non-controlling interest	(.03)	(.03)	(.02)	(.01)	(.02)	(.02)	(.01)	—	(.01)	(.01)	(.01)
Return on assets	.70%	.70%	.70%	.69%	.70%	.21%	.08%	.76%	.79%	.47%	.68%
Return on assets after preferred dividends	.64%	.65%	.63%	.60%	.60%	.10%	(.01)%	.68%	.71%	.41%	.61%
Common share information (3)											
Shares outstanding (thousands)											
as at October 31	308,791	308,335	310,529	314,155	314,155	314,155	314,155	306,460	293,267	286,674	265,300
average basic	308,662	308,906	314,121	314,155	314,155	314,155	310,543	301,807	290,243	282,586	250,677
average fully diluted	322,020	319,065	314,121	314,155	314,155	314,155	310,543	303,265	295,945	290,113	282,231
Earnings per share (loss)											
— basic	\$5.44	\$5.01	\$4.09	\$3.49	\$3.19	\$.46	\$(.05)	\$2.92	\$3.00	\$1.64	\$2.52
— fully diluted	\$5.30	\$4.91	\$4.09	\$3.49	\$3.19	\$.46	\$(.05)	\$2.91	\$2.96	\$1.63	\$2.42
— goodwill-adjusted basic (4)	\$5.64	\$5.20	\$4.21	\$3.62	\$3.34	\$.58	\$.01	\$2.98	\$3.06	\$1.69	\$2.65
Dividends per share	1.76	1.52	1.33	1.18	1.16	1.16	1.16	1.16	1.16	1.10	1.04
Common share price											
(5) High	92.20	76.45	44.40	31.38	31.88	28.88	29.00	27.50	25.69	24.38	18.25
(5) Low	57.50	44.00	29.75	25.88	25.13	22.00	21.50	20.50	19.75	16.88	13.06
(5) Close	71.10	75.35	44.30	30.13	28.38	27.25	24.13	27.00	20.75	24.25	18.00
Book value (6)	31.57	27.91	24.67	22.42	20.13	18.09	18.82	19.91	18.10	16.16	15.58
Price/earnings multiple (7)	14.1	12.3	9.1	8.2	8.9	—	—	8.2	7.7	12.7	6.5
Dividend yield (8)	2.4%	2.5%	3.6%	4.1%	4.1%	4.6%	4.6%	4.8%	5.1%	5.3%	6.6%
Dividend payout ratio (9)	32.3%	30.3%	32.5%	33.8%	36.4%	—	—	40.0%	38.8%	67.4%	42.1%
Return on equity (10)	18.4%	19.3%	17.6%	16.6%	16.8%	2.4%	(.3)%	15.5%	17.5%	10.1%	17.2%
Goodwill-adjusted return											
on equity (4)	20.4%	21.6%	18.9%	18.1%	18.9%	3.1%	.1%	16.4%	18.7%	10.9%	18.8%
Capital ratios (\$ millions) (11)											
Tier 1 capital	\$ 11,593	\$ 10,073	\$ 9,037	\$ 8,421	\$ 7,660	\$ 6,910	\$ 6,740	\$ 6,938	\$ 5,712	\$ 5,096	
Total capital	\$ 16,480	\$ 14,705	\$ 12,069	\$ 11,913	\$ 11,525	\$ 10,941	\$ 10,483	\$ 10,686	\$ 8,525	\$ 7,634	
Total risk-adjusted assets	\$157,064	\$147,672	\$128,163	\$121,350	\$120,158	\$117,043	\$114,298	\$113,975	\$115,035	\$106,218	
Tier 1 capital ratio	7.4%	6.8%	7.0%	6.9%	6.4%	5.9%	5.9%	6.1%	5.0%	4.8%	
Total capital ratio	10.5%	10.0%	9.4%	9.8%	9.6%	9.3%	9.2%	9.4%	7.4%	7.2%	
Other information											
Number of employees (12)	53,468	50,719	48,205	49,011	49,208	52,745	49,628	50,547	50,106	47,989	46,096
Automated banking machines	4,317	4,248	4,215	4,079	3,948	3,981	3,828	3,651	3,142	2,334	1,632
Service delivery units											
Domestic	1,422	1,453	1,493	1,577	1,596	1,731	1,661	1,645	1,617	1,560	1,513
International (13)	106	105	103	105	97	95	83	102	48	47	47
Total	1,528	1,558	1,596	1,682	1,693	1,826	1,744	1,747	1,665	1,607	1,560

(1) As the information is not reasonably determinable, amounts for years prior to 1995 have not been restated to reflect the presentation of derivative related amounts on a gross basis.

(2) Net interest income and income taxes are presented on a taxable equivalent basis.

(3) Common shares were split on a 2 for 1 basis in February 1990 and all related data has been restated accordingly.

(4) Goodwill-adjusted return on common shareholders' equity and goodwill-adjusted basic earnings per share are computed by adding back goodwill amortization charged to net income in each year and reducing average common shareholders' equity by the unamortized goodwill.

(5) High and low price of common shares traded on the Toronto Stock Exchange during the year and the closing price on the last trading day of October.

(6) Common shareholders' equity divided by common shares outstanding at October 31.

(7) Average of high and low common share price divided by fully diluted earnings per share. The multiples for 1993 and 1992 are not meaningful.

(8) Dividends per common share divided by the average of high and low share price.

(9) Common dividends as a percentage of net income after preferred dividends. The ratios for 1993 and 1992 are not meaningful.

(10) Net income after taxes less preferred share dividends, divided by average common shareholders' equity.

(11) Commencing October 31, 1989, the bank has calculated its capital ratios in accordance with the capital adequacy guideline of the Superintendent of Financial Institutions Canada.

(12) On a full-time equivalent basis.

(13) International service delivery units since 1991 include (in addition to branches) representative offices, agencies and subsidiaries.

PRINCIPAL SUBSIDIARIES(1)	PRINCIPAL OFFICE ADDRESS(2)	CARRYING VALUE OF VOTING SHARES OWNED BY THE BANK(3)
Royal Bank Mortgage Corporation (4)	Montreal, Canada	\$369
Royal Trust Corporation of Canada (4)	Toronto, Canada	770
The Royal Trust Company	Montreal, Canada	200
Royal Mutual Funds Inc.	Toronto, Canada	1
Royal Bank Action Direct Inc.	Richmond Hill, Canada	31
Royal Bank Holding Inc.	Toronto, Canada	10,706
Royal Bank DS Holding Inc.	Toronto, Canada	
RBC Dominion Securities Limited	Toronto, Canada	
RBC Dominion Securities Inc.	Toronto, Canada	
RBC Dominion Securities Corporation	New York, U.S.A.	
Royal Bank Realty Inc.	Montreal, Canada	
RBC Insurance Holdings Inc.	Mississauga, Canada	
Voyageur Insurance Company	Brampton, Canada	
Westbury Canadian Life Insurance Company	Hamilton, Canada	
Life Insurance Company of Royal Bank of Canada	Mississauga, Canada	
General Insurance Company of Royal Bank of Canada	Mississauga, Canada	
Royal Bank Equity Partners Limited	Toronto, Canada	
Royal Bank Capital Management Inc.	Toronto, Canada	
RT Investment Management Holdings Inc.	Toronto, Canada	
Royal Bank Investment Management Inc.	Toronto, Canada	
RT Capital Management Inc.	Toronto, Canada	
3305988 Canada Inc.	Toronto, Canada	
Royal Bank Capital Corporation	Toronto, Canada	
R.B.C. Holdings (Bahamas) Limited	Nassau, Bahamas	
Royal Bank of Canada Trust Company (Bahamas) Limited	Nassau, Bahamas	
Multinational Services (Cayman) Limited (4)	George Town, Grand Cayman	
Finance Corporation of Bahamas Limited	Nassau, Bahamas	
Royal Bank of Canada Reinsurance (Cayman) Limited	George Town, Grand Cayman	
Royal Bank of Canada Insurance Company Ltd.	St. Michael, Barbados	
Royal Bank of Canada (Asia) Limited	Singapore	
Investment Holdings (Cayman) Ltd.	George Town, Grand Cayman	
Royal Bank of Canada (Barbados) Limited	St. Michael, Barbados	
RBC Holdings (USA) Inc.	New York, U.S.A.	394
Royal Bank of Canada Financial Corporation	St. Michael, Barbados	6
Atlantis Holdings Limited	St. Michael, Barbados	405
RBC Finance B.V.	Amsterdam, Netherlands	1,676
Royal Bank of Canada (Suisse)	Geneva, Switzerland	
RBC Holdings (Channel Islands) Limited	Guernsey, Channel Islands	
Royal Bank of Canada (IOM) Limited	Isle of Man, British Isles	
Royal Bank of Canada (Channel Islands) Limited	Guernsey, Channel Islands	
Royal Bank of Canada (Jersey) Limited	Jersey, Channel Islands	
Royal Bank of Canada Holdings (U.K.) Limited	London, England	
Royal Bank of Canada Europe Limited	London, England	
RBC Investment Management (Asia) Limited	Hong Kong	34
Royal Trust Bank (Asia) Limited (4)	Singapore	2

(1) The bank owns 100% of the voting shares of each subsidiary, except RBC Dominion Securities Limited (80%) and Finance Corporation of Bahamas Limited (75%).
The bank has initiated a process which will result in the acquisition of all voting shares of RBC Dominion Securities Limited, effective November 1, 1998.

(2) The subsidiaries are incorporated under the laws of the country in which the principal office is situated, except for RT Investment Management Holdings Inc. incorporated under the laws of the province of Ontario, and RBC Holdings (USA) Inc. incorporated under the laws of the state of Delaware, U.S.A.

(3) The carrying value (in millions of dollars) of voting shares is stated as the bank's equity in such investments.

(4) The subsidiaries have outstanding non-voting shares of which the bank, directly or indirectly, owns 100%.

corporate governance

The financial services industry is being dramatically transformed. Financial markets are increasingly integrated, strong competitors are entering the industry, innovative financial instruments are being created, the regulatory environment continues to evolve rapidly, and modern technologies are providing new avenues of service delivery.

These developments have important implications for corporate governance. Shareholders, as owners of the bank, must be assured that corporate governance practices foster long-term shareholder value. Their attention focuses on the Board of Directors, which supervises the bank's management on the shareholders' behalf. Boards are accountable to the shareholders, but their success in serving them depends in part on how well the interests of others – depositors and other customers, employees and communities – are served by the bank.

Royal Bank intends to remain proactive in adopting industry-leading corporate governance practices. In 1980, and again in 1993-94, special board committees reviewed the role of the Board of Directors. Their recommendations form the basis of Royal Bank's corporate governance system. The bank's system of governance is consistent with the guidelines of the Toronto and Montreal stock exchanges for effective corporate governance (the "Exchange Guidelines"). The following are among the main principles of the bank's corporate governance system.

1 | Royal Bank will remain a leader in adopting best practices in corporate governance.

In a rapidly changing environment, corporate governance must be subject to constant review and improvement. With this principle in mind, the board established a strong, independent, standing committee, the Corporate Governance Committee, to manage the

governance system on behalf of the full board. This Committee is made up exclusively of external directors. It monitors the effectiveness of the Board of Directors and its committees and the performance of directors. As Royal Bank operates globally, the

Corporate Governance Committee tracks international developments in corporate governance and adapts best practices to the needs and circumstances of the bank. The Committee also reviews the bank's adherence to the Exchange Guidelines.

2 | The Board of Directors supervises the management of the bank's business and affairs.

The board supervises the management of the business and affairs of Royal Bank with the goal of enhancing long-term shareholder value. In doing so, the board delegates to the bank's management the authority and responsibility for managing day-to-day affairs. The board's responsibilities include putting in place the bank's management team and reviewing its performance and effectiveness.

The board and its committees also:

- › approve Royal Bank's strategic plan and oversee its implementation. At least one day-long meeting each year is devoted to strategic planning.
- › identify the principal business risks of the bank and ensure those risks are effectively managed.
- › oversee succession planning for senior management, by reviewing the bank's leadership review process and ensuring that strong candidates are identified and depth in management is fostered.
- › review and approve the contents of major disclosure documents, including the Annual Report, and ensure that appropriate processes are in place for communicating with customers, employees, shareholders, the investment community and the public.
- › assess and approve the integrity and effectiveness of internal control and management information systems.
- › make major policy decisions for the bank, which include setting the dividend policy, establishing investment and lending policies, standards and procedures, and approving compensation policies and the compensation of senior officers.
- › approve the annual and quarterly financial statements, corporate financial goals and annual operating plan, including the capital budget and major capital expenditures.

- › approve the corporate objectives which the CEO is responsible for meeting. These objectives are set out in the 1998 Annual Report. Each quarter, shareholders are informed about the bank's performance against these objectives.

Much of the work of the board is done through committees. This allows in-depth analysis of issues and more time for the full board to discuss and debate items of business. Committees report to the full board after each committee meeting. The activities of the committees of the board are described below.

The *Bank Act* specifies certain important matters that must be dealt with by the board, such as approval of annual financial statements and declaration of dividends. By formal resolution, the Board of Directors reserves certain decisions to itself and delegates others to management. For example, acquisitions and investments in new subsidiaries, capital expenditures in real estate, computers or electronic delivery systems, and entrance into strategic alliances or licensing agreements are matters which have thresholds that determine when board approval is required and define the limits of management's discretion.

Over the past year the board held ten scheduled meetings, three additional special meetings and one all-day strategy session. The Board of Directors held on-going discussions this year on the proposed merger with Bank of Montreal, and addressed such matters as the Year 2000 issue, the pending introduction of the European Monetary Unit, Asia and the global economy, as well as specific transactions.

3 | The board must form a strong, cohesive team with shared responsibilities.

The strength of the board is built upon the background, diversity, qualities, skills and experience of its members. Nominees for the board are selected for their business judgment, integrity, ability to generate public confidence, business or professional activity, international experience, knowledge of local, national and international issues, residency, and familiarity with geographic regions relevant to

Royal Bank's strategic priorities. The Corporate Governance Committee annually reviews the credentials and performance of directors standing for re-election.

The size of the board represents a balance. The board must be small enough to form a cohesive team and to facilitate decision-making and open and effective dialogue. At the same time there is a

business need for strong geographical, professional and industry sector representation. Over the past several years the Board of Directors has substantially reduced its size, and has adopted a goal of maintaining the size of the board in the range of 18-21 directors. The Board of Directors will comprise 19 members following the 1999 Annual Meeting.

4 | The board must be independent from management.

As the Exchange Guidelines note, there are different ways to ensure independence. One is to have a board chairman who is not a member of management. Another is to give a board committee or a director, sometimes called the "lead director", responsibility for ensuring that the board functions independently. Royal Bank has adopted the second approach, giving this responsibility to the chairman of the Corporate Governance Committee and its members. The chairman of the Corporate Governance Committee serves as a liaison on corporate governance matters among the directors and between the board and senior management, and at the conclusion of board meetings, chairs meetings of non-management directors at which any concerns may be freely expressed.

This system protects board independence and at the same time allows the bank to retain the benefits of having a Chairman who is also Chief Executive Officer. The combination of the two positions means the Chairman has a more detailed knowledge of the business and activities of the bank than would be possible for a chairman who was not a member of management. This is consistent with general practice within the banking industry in North America.

Board policy promotes board independence in many other ways. For example:

- › board policy permits no more than two directors from management. Currently, only one director is an executive of the bank (the CEO).
- › management directors do not serve as members of any board committee.
- › the *Bank Act* and policies of the Board of Directors impose requirements on the directors regarding conflicts of interest and related party transactions and directors must disclose any interest in and refrain from voting in respect of material contracts with the bank.
- › the Human Resources Committee and the board foster accountability of the CEO and other members of senior management by selecting and annually evaluating the CEO and, in consultation with outside consultants, determining the compensation of the CEO and other senior management.
- › to align the interests of directors and shareholders, directors' retainers are paid in shares until they have an investment in Royal Bank with a value equal to six times their annual retainer; alternatively, directors may elect to receive at least 50% of all their remuneration in the form of deferred stock

units, which cannot be converted to cash until a director ceases to be a member of the board. Directors may also elect to receive all their payment in common shares or deferred stock units.

On the issue of board independence, the *Bank Act* provides that no more than two-thirds of the directors may be "affiliated"⁽¹⁾ with the bank. As of October 31, 1998, only two of the 22 directors are "affiliated" with Royal Bank. In addition, the Exchange Guidelines provide that a majority of the directors should be "unrelated"⁽²⁾ to the bank. The definitions of "unrelated" and "affiliated" both focus on the nature and extent of business ties between directors and the bank. In considering whether a director is "related", the Board of Directors first made the determination that any director who was "affiliated" would be considered to be "related". Based on this analysis, and on the definition of "unrelated" and information provided by directors as to their individual circumstances, the board determined that only three of the 22 directors are "related" to Royal Bank:

- › as CEO of the bank, Mr. John Cleghorn is a "related" director.
- › as at October 31, 1998, one director is "related" by virtue of a corporate banking relationship with the bank.
- › the Exchange Guidelines recognize that a former CEO can acquire the status of an "unrelated" director "after the expiration of an appropriate period of time". The board has considered whether Mr. Allan Taylor, the former Chairman and CEO of the bank is a "related" director and has concluded that, although four years have passed since Mr. Taylor was an employee of the bank, Mr. Taylor should continue to be regarded as "related" to the bank.

(1) "Affiliated" persons include an officer or employee; a significant borrower; a person who controls or is an officer or employee of a significant borrower; a person who is an officer, partner or employee of, or who has a substantial investment in, a partnership or company that provides goods or services to Royal Bank with annual billings to the bank exceeding 10% of its total annual billings; a person whose loan from Royal Bank is not in good standing or who is a director, officer or employee of, or who controls, an entity with a loan from Royal Bank which is not in good standing; and a spouse of any person who is "affiliated".

(2) An "unrelated" director is "a director who is independent of management and is free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the corporation, other than interests and relationships arising from shareholding. A related director is a director who is not an unrelated director."

5 | **Effective decision-making requires that the board be well-informed.**

To strengthen its independence from management the board has timely access to the knowledge and information it needs to carry out its duties. To ensure this:

- › each new director of the bank is presented with a Director's Guide and has an opportunity to meet with senior management to discuss the business functions and principal activities of Royal Bank.
- › the bank provides directors with an ongoing education program, with a focus on the corporate governance system, including roles, responsibilities and liabilities of directors.
- › in addition to regular board information sessions on topics such as corporate goals, operating plan and capital budget, compensation, public policy, and the bank's strategic framework, in the past year formal presentations have been provided to the board on other topics, such as: human resources issues, business reorganizations, wealth management and insurance.
- › prior to each board and committee meeting, the directors receive a comprehensive information package including the agenda, minutes of the previous meeting, presentations and other information on items to be discussed at the meeting.
- › annual off-site sessions are held where directors review and assess the bank's strategic direction. These meetings are attended by the full board and the heads of the bank's business units.
- › directors receive a weekly package of information with press releases, articles, videos and analysts' reports on Royal Bank and the financial services industry.
- › the board has adopted a policy that enables an individual director, with the consent of the chairman of the Corporate Governance Committee, to engage an outside advisor at the expense of the bank.

6 | **Accountability requires a commitment to quality in communications.**

The bank is committed to openness, excellence and timeliness in communications with its shareholders, customers, employees and the public. The board has ensured that procedures are in place to provide timely information to investors and potential investors and to respond to investor inquiries and concerns. The bank maintains an

experienced investor relations staff with the responsibility of maintaining communications with the investing public in accordance with bank policies and procedures and legal disclosure requirements. It is bank policy that every shareholder inquiry receives a prompt response from an appropriate officer. As well, the Chief Executive Officer, the

Chief Financial Officer and other senior executives meet periodically with financial analysts and institutional investors. Investor relations staff are also available to shareholders by telephone and fax and the bank maintains an extensive investor relations website at <http://www.royalbank.com/investorrelation>

Mandates and Activities of Board Committees

Every committee of the Board of Directors is composed exclusively of non-management directors, a majority of whom are "unrelated". Each committee annually evaluates its effectiveness in carrying out its mandate. The roles and responsibilities of each committee are specifically defined so as to provide guidance to committee members as to their duties. The mandates and activities of the board committees are described below.

Audit Committee

- › reviews matters prescribed by the *Bank Act*, including annual and quarterly financial statements, and returns specified by the Superintendent of Financial Institutions.
 - › meets separately with the shareholders' auditors, the chief internal auditor and senior management, to monitor the effectiveness of the internal control procedures and management information systems, controls, procedures and accounting practices.
 - › requires management to implement and maintain appropriate internal control procedures and reviews, evaluates and approves those procedures.
 - › at least once a year, reviews and approves the Standards Assessment and Reporting Program, together with a representation letter concerning adherence by the bank to the Standards of the Canada Deposit Insurance Corporation ("CDIC").
 - › reviews measures implemented to ensure compliance with the CDIC Internal Control Standards, which include guidelines on information technology controls, valuation policies and procedures, safeguarding controls, accounting and record keeping controls, management information systems, and independent inspections and audits.
 - › reviews and approves policies related to liquidity management and capital management as provided for in the CDIC Standards and the Standards Assessment and Reporting Program concerning adherence to these CDIC Standards.
 - › reviews investments and transactions that could adversely affect the well-being of Royal Bank.
 - › reviews offering documents relating to the issue of securities of the bank.
- Members: J. Bougie, R.L. Cliff (Chair), L.Y. Fortier, G.W.F. McCain, J.E. Newall, K.C. Rowe*

Conduct Review Committee

- › requires management to establish procedures for complying with the rules of the *Bank Act* concerning “related parties” of Royal Bank and reviews those procedures.
- › ensures that any transactions with related parties that may have a material effect on the stability or solvency of the bank are identified.
- › establishes and monitors procedures for disclosing information to customers, restricting the use of confidential information, dealing with complaints, and resolving conflicts of interest.

Members: T.M. Allen, J.T. Ferguson, R.B. Peterson (Chair), G. Saint-Pierre, R.T. Stewart

Corporate Governance Committee

- › monitors and makes recommendations regarding the effectiveness of the system of corporate governance at Royal Bank, including the board program and “forward agenda” of subjects to be discussed at board and committee meetings over the coming year, the frequency and content of meetings and the need for any special meetings, communication processes between the board and management, mandates of board committees, and policies governing size and composition of the board.
- › assesses the performance of the Board of Directors as a whole, including the committees of the board, and monitors the performance of directors. As part of this process, the directors periodically complete a written evaluation of the performance of the board and its committees and the resulting data is analyzed by an independent outside consultant.
- › reviews annually the credentials and performance of the directors standing for re-election, considering their continued qualification under applicable laws and the continued validity of their credentials.
- › identifies and recommends to the board candidates suitable for nomination as directors, in consultation when necessary with independent outside consultants.
- › reviews shareholder proposals received by the bank and recommends to the board the bank’s response.
- › advises management in the planning of the annual strategic meeting attended by the directors and senior management.
- › reviews the amount and the form of compensation of directors and makes recommendations, based on a report from an independent consultant, for appropriate adjustments.

Members: J. Bougie, J.R. Evans (Chair), L.Y. Fortier, D.P. O'Brien, G. Saint-Pierre, J.A. Tory, V.L. Young

Human Resources Committee

- › reviews and approves principles for the recruitment, hiring, training, compensation and evaluation of employees.
- › reviews Royal Bank’s pension plan performance.
- › reviews management succession plans for executive officers.
- › reviews the major compensation policies of Royal Bank and recommends to the board the incentive programs for executives.
- › reviews the position description for the CEO and approves the corporate objectives the CEO is responsible for meeting.
- › selects the CEO and annually evaluates the performance of the CEO against these objectives.
- › recommends to the board the remuneration of the CEO and other senior executive officers.

Members: J. R. Evans, D.P. O'Brien, H.T. Richardson, J.A. Tory (Chair), S.D. Whittaker, V.L. Young

Public Policy Committee

- › ensures that the businesses of Royal Bank are conducted in an ethical and socially responsible way.
- › oversees the bank’s communications policy, including processes for communicating with customers, employees, shareholders and the community.
- › reviews the policies designed to create a positive corporate image.
- › reviews the bank’s policy on and budget for political donations.
- › reviews the bank’s charitable contributions policy. Members of the Committee are also directors of Royal Bank of Canada Charitable Foundation.

Members: G.A. Cobon, G.N. Cooper, P. Gauthier (Chair), H.T. Richardson, A.R. Taylor

Risk Policy Committee

- › establishes lending and investment policies, standards and procedures.
- › reviews the policies, standards and procedures for the management of key risks.
- › reviews credits to directors or entities in which they are partners, directors or officers.
- › approves policies related to the management of credit risk and Royal Bank’s securities portfolio.
- › reviews trends in portfolio quality and the adequacy of provisions for credit losses.
- › reviews the credit risk management, real estate appraisal and foreign exchange and interest rate risk management policies and programs to ensure they meet CDIC Standards.
- › reviews and approves the Standards Assessment and Reporting Program to ensure it meets CDIC Standards.

Members: T.M. Allen, J.T. Ferguson, R.B. Peterson (Chair), G. Saint-Pierre, R.T. Stewart

directors

John E. Cleghorn, F.C.A. (1987)
Toronto
Chairman and
Chief Executive Officer
Royal Bank of Canada

Theodore M. Allen (1992)
Winnipeg
President and
Chairman of the Board
United Grain Growers Limited

*** Jacques Bougie, O.C. (1991)**
Montreal
President and
Chief Executive Officer
Alcan Aluminium Limited

*** Ronald L. Cliff, C.M., F.C.A. (1987)**
Vancouver
Chairman
BC Gas Inc.

George A. Cohon, O.C. (1988)
Toronto
Senior Chairman and Chairman of
the Executive Committee
McDonald's Restaurants of Canada
Limited

G.N. (Mel) Cooper, C.M., O.B.C. (1992)
Victoria
Chairman and
Chief Executive Officer
Seacoast Communications
Group Inc.

*** John R. Evans, C.C., M.D. (1984)**
Toronto
Chairman
Alcan Aluminium Limited
Chairman
Torstar Corporation

John T. Ferguson, F.C.A. (1990)
Edmonton
Chairman of the Board
Princeton Developments Ltd.
Chair of the Board
TransAlta Corporation

L. Yves Fortier, C.C., Q.C. (1992)
Montreal
Chairman
Ogilvy Renault

The Hon. Paule Gauthier, P.C., O.C., Q.C. (1991)
Quebec City
Partner
Desjardins Ducharme Stein
Monast

G. Wallace F. McCain, O.C. (1986)
Toronto
Chairman
Maple Leaf Foods Inc.

J. Edward Newall, O.C. (1984)
Calgary
Chairman of the Board
NOVA Corporation

David P. O'Brien (1996)
Calgary
Chairman, President and
Chief Executive Officer
Canadian Pacific Limited

Robert B. Peterson (1992)
Toronto
Chairman, President and
Chief Executive Officer
Imperial Oil Limited

Hartley T. Richardson (1996)
Winnipeg
President
James Richardson & Sons, Limited

Kenneth C. Rowe, F.C.I.S. (1985)
Halifax
Chairman and
Chief Executive Officer
I.M.P. Group International Inc.

Guy Saint-Pierre, O.C. (1990)
Montreal
Chairman of the Board
SNC-Lavalin Group Inc.

Robert T. Stewart (1988)
Vancouver
Company Director

Allan R. Taylor, O.C. (1983)
Toronto
Retired Chairman and
Chief Executive Officer
Royal Bank of Canada

John A. Tory, Q.C. (1971)
Toronto
President
Thomson Investments Limited

Sheelagh D. Whittaker (1993)
Toronto
Chair, President and
Chief Executive Officer
EDS Canada

Victor L. Young, O.C. (1991)
St. John's
Chairman and
Chief Executive Officer
Fishery Products International
Limited

** Not standing for re-election on
February 24, 1999*

*The date appearing after the name of each direc-
tor indicates the year in which the individual
became a director. The term of office of each
director will expire at the next annual meeting,
scheduled for February 24, 1999.*

executive officers

Group office*

John E. Cleghorn
Chairman & Chief Executive Officer

J. Emilien Bolduc
Vice-Chairman
Montreal

Gordon J. Feeney
Vice-Chairman

Anthony S. Fell
Vice-Chairman

Bruce C. Galloway
Vice-Chairman

W. Reay Mackay
Vice-Chairman

Robert J. Sutherland
Vice-Chairman

Peter W. Currie
Executive Vice-President &
Chief Financial Officer

Suzanne B. Labarge
Executive Vice-President &
Chief Risk Officer

Martin J. Lippert
Executive Vice-President &
Chief Information Officer

Businesses

Personal & Commercial Banking

Personal Financial Services

Jim T. Rager
Executive Vice-President

Elisabetta Bigsby
Senior Vice-President
Products

Shauneen E. Bruder
Senior Vice-President
Marketing

Judith M.S. Hatley
Senior Vice-President
Sales

*with an executive office also in
Montreal*

Security First Network Bank

David S.E. Noble
President & Chief Executive Officer
Atlanta

Card Services

Mark K. Tonnesen
Executive Vice-President

Jane S. Fershko
Senior Vice-President

RBC Insurance Holdings Inc.

W. James Westlake
President & Chief Executive Officer
Mississauga, Ont.

Business Banking

Charles S. Coffey
Executive Vice-President

Donald E. Blue
Senior Vice-President
Product Development & Management

Ed J. Lundy
Senior Vice-President

Anne L.B. Sutherland
Senior Vice-President
Small & Medium Size Businesses

*with an executive office also in
Winnipeg*

Wealth Management

Royal Trust

Anthony A. Webb
President & Chief Executive Officer

Greg R. Bright
Senior Vice-President
Personal Wealth Management

*with executive offices also in
Calgary, London, Ont., Montreal,
Ottawa and Vancouver*

Global Securities Services

David W.S. Dunlop
Senior Vice-President
Global Securities Services

*with executive offices also in
Calgary, Montreal, Vancouver, London
(England), Singapore, and Tokyo*

Global Private Banking

Michael J. Lagopoulos
Senior Vice-President
Global Private Banking

*with executive offices also in
London (England), Miami, Geneva, Singapore,
Guernsey and Jersey (Channel Islands)*

RT Investment Management Inc.

B. Lee Bentley (until 12/31/98)
Michael Edwards (as of 12/31/98)
President & Chief Executive Officer

Private Client Services

Peter Russel
Vice-President & Director

Royal Mutual Funds Inc.

Simon Lewis
President

Royal Bank Action Direct Inc.

Michael A. Bastian
President & Chief Executive Officer
Richmond Hill, Ont.

Corporate & Investment Banking*

RBC Dominion Securities Inc.

Anthony S. Fell
Chairman & Chief Executive Officer

Charles M. Winograd
President
Chief Operating Officer

Bryce W. Douglas
Deputy Chairman

*with executive offices also in
Calgary, Montreal and Vancouver*

Corporate & Investment Banking

Gord Nixon
Vice-President & Director, Co-Head

Bernie Schroder
Vice-President & Director, Co-Head

Global Markets

Andy Scace
Vice-President & Director

Global Equity

Bill Moriarty
Vice-President & Director

RBC Dominion Securities Corporation

Gordon M. Ritchie
President & Chief Executive Officer
New York

Geographies – Canada

Alberta

Gord G. Tallman
Senior Vice-President & General Manager
Calgary

*with an executive office also in
Edmonton*

Atlantic

Clay J. Coveyduck
Senior Vice-President & General Manager
Halifax

*with executive offices also in
Saint John and St. John's*

British Columbia & Yukon

Rod S. Pennycook
Senior Vice-President & General Manager
Vancouver

*with executive offices also in
Langley, New Westminster, Prince George
and Victoria*

Manitoba

Dennice M. Leahy
Senior Vice-President & General Manager
Winnipeg

Metropolitan Toronto

George F. Gaffney
Executive Vice-President & General Manager

*with executive offices also in
Etobicoke, Mississauga, North York,
Richmond Hill, and Scarborough*

Ontario (outside Toronto)

Pam G. Pitz
Senior Vice-President & General Manager
Burlington

*with executive offices also in
Kitchener, London, and Ottawa*

Quebec

Monique F. Leroux
Senior Vice-President & General Manager
Montreal

*with an executive office also in
Quebec City*

Saskatchewan

Anne Lockie
Senior Vice-President & General Manager
Regina

Geographies – International

Asia

J. Philip W. Brewster
Senior Vice-President & General Manager
Singapore

*with executive offices also in
Hong Kong and Tokyo*

Caribbean

Mike F. Phelan
Vice-President
Bahamas and Cayman
Nassau, Bahamas

C. Doug Maloney
Vice-President
Barbados and Eastern Caribbean
Bridgetown, Barbados

Europe

Ronald E. Stanley
Senior Vice-President & General Manager
London

*with an executive office also in
Paris*

Latin America

Alan A. Bowbyes
Senior Vice-President & General Manager

*with executive offices also in
Mexico City and Sao Paulo*

U.S.A.

Mark R. Hughes
Senior Vice-President & General Manager
New York

*with executive offices also in
Chicago, Los Angeles and Houston*

Functions

Corporate Affairs

Bryan P. Davies
Senior Vice-President

Corporate Secretary

Jane E. Lawson
Senior Vice-President & Corporate Secretary

Corporate Treasury

Bryan P. Griffiths
Senior Vice-President
Funding, Liquidity & Portfolio Management

Finance & Audit

Peter W. Currie
Executive Vice-President & Chief Financial
Officer

David R. Allgood
Senior Vice-President
Taxation

Janice Fukakusa
Senior Vice-President & Chief Internal Auditor

John Merriam
Senior Vice-President
Finance

Human Resources

E. Gay Mitchell
Executive Vice-President

Peter H. Tucker
Senior Vice-President
Compensation & Organization

Law

Ted K. Weir
Senior Vice-President & General Counsel

Ombudsman

Verne G. Mckay
Senior Vice-President

Operations & Service Delivery

Don A. Berardinucci
Executive Vice-President

A. Roger Creasor
Senior Vice-President
Service Delivery

Pierre Lebrun
Senior Vice-President
Delivery Channel Management

Payments

Robert H. Aylward
Senior Vice-President

Real Estate Operations

Ron A. Masleck
Senior Vice-President

Risk Management

Suzanne B. Labarge
Executive Vice-President &
Chief Risk Officer

Norm C. Achen
Senior Vice-President
New York

Francine P. Blackburn
Senior Vice-President

Ronald J.J. Cathcart
Senior Vice-President

David W. Dougherty
Senior Vice-President

Morten N. Friis
Senior Vice-President

Donald A.B. Graham
Senior Vice-President
Singapore

R.G. (Bob) Hall
Senior Vice-President

John McCallum
Senior Vice-President &
Chief Economist

Geza P.Z. Tatrallyay
Senior Vice-President
London, England

Special Projects

Murray A. Corlett
Executive Vice-President

Strategic Development

Jim C. Walz
Senior Vice-President

Systems & Technology

Martin J. Lippert
Executive Vice-President &
Chief Information Officer

George A.A. Dickson
Senior Vice-President
Relationship Management

John Reitsma
Senior Vice-President
Production Systems Support

Allen C. Tinney
Senior Vice-President
Product & Enterprise Solution

John K. Truman
Senior Vice-President
Customer Information &
Delivery Solutions

Year 2000

Ray H. Thornton
Vice-President

*Effective November 1, 1998.

Royal Bank believes that positive results for shareholders are strongly influenced by the quality of relationships the bank maintains with its other key stakeholders: clients, employees and the communities it serves. We believe that corporations committed to the positive well-being of these key stakeholders will also deliver the best returns to their shareholders. This page highlights Royal Bank's commitment to its other stakeholders.

Our clients: Ours is a people business – ongoing success and growth are dependent on developing caring relationships with our customers and satisfying their individual wants and needs. This is our relationship promise to our customers – treating all customers as valued individuals – providing choices for financial service, information and sound advice – demonstrating at

every point of contact that we appreciate, understand and really value their business. To deliver this promise we continue to work on re-aligning roles with customer needs, investing in training, and leveraging technologies so that employees can more effectively deliver customer care, sales and service, whether it's face to face, on the phone or by computer. We must also continue to offer simplified, customized solutions and innovative products and services that provide value for money. Our customers today are increasingly sophisticated and have more options and choices than ever before. At Royal Bank, our belief is that focusing on the customer is a true strategy for success. (For more details of how we are improving service to clients, consult our businesses' operational reviews, pp. 18-29 and operating highlights, pp. 2-3)

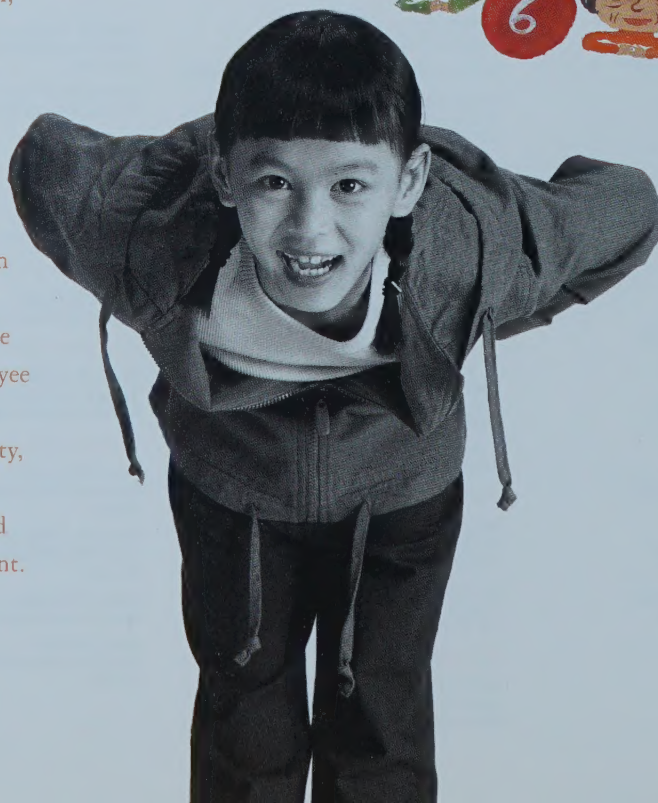
Our communities: We continue to improve relationships with our

communities. As one of the largest corporate donors in the country, Royal Bank was responsible for nearly \$25 million in donations to support communities, federated appeals (like The United Way), arts and culture, education, health, welfare, athletics, research and the environment. Royal Bank Career Edge, a national non-profit internship program, placed more than 100 students, 80 percent with small businesses. Another initiative has allowed community bankers to work with local groups to identify needs of low-income Canadians. Royal Bank's Women Entrepreneur Advisory Council acts as a source and sounding board for ideas to keep in touch with the views and needs of this important market. And an extensive array of small business initiatives has strengthened our position as North America's leading bank for small and medium sized enterprises.

focus on stakeholders

Our employees: It's clear that rather than resisting change, Royal Bankers see an opportunity for professional growth through learning. A 1998 Angus Reid poll of 1,200 employees found that 60% said their workplace had changed over the past three years. Sixty-three percent said the change has been for the better. This attitude fosters innovation and helps to keep an organization ahead of its competitors, enabling employees to keep pace with customers as both move forward. In 1998, the bank invested \$130 million in

employee development, in addition to leading edge work/family/life, diversity and gender policies and programs. And through the Royal Employee Savings and Share Ownership Plan, 93% of management employees and 86% of employees overall own Royal Bank shares. Employees are also eligible for variable compensation through the Quality Performance Incentive plan, based on employee performance and the bank's return on equity, revenue growth, customer satisfaction and employee commitment.



Trade-marks used in this report include the LION & GLOBE Design, ROYAL BANK, ROYAL BANK OF CANADA, ROYAL BANK CREDITLINE FOR SMALL BUSINESS, CREDITLINE FOR SMALL BUSINESS, ROYAL BANK FINANCIAL GROUP, ROYAL BUSINESS LEASE, ROYAL BUSINESS LEASELINE, ROYAL DIRECT, INVEST BY PHONE, ROYAL CREDIT LINE, HOME BUYERS' GIC, ONE ON ONE, ROYAL EMPLOYEE SAVINGS AND SHARE OWNERSHIP PLAN, ROYAL CHOICES PLAN, TRAVEL HEALTH-PROTECTOR, HEALTHSELECT, ROYAL BANK CONNECT@WORK, CONNECT@WORK, ROYAL BUSINESS OPERATINGLINE, RATELINK ESSENTIAL, ROYAL WAY, ROYAL BUSINESS OVERDRAFT PROTECTION, ROYAL SMALL BUSINESS LOAN, VIATECH, VIASOURCE which are trade-marks of Royal Bank of Canada. ACTION DIRECT, PCACTION, NETACTION and TELACTION are trade-marks of Royal Bank of Canada used under licence by Royal Bank Action Direct Inc. ROYAL MUTUAL FUNDS, ROYAL CANADIAN INDEX FUND, ROYAL CANADIAN MONEY MARKET FUND, THE MUTUAL FUND MARKETPLACE, ROYAL BALANCED GROWTH FUND, ROYAL CANADIAN VALUE FUND, ROYAL BALANCED FUND, ROYAL BOND FUND, ROYAL DIVIDEND FUND, ROYAL STRATEGIC INDEX FUNDS are trade-marks of Royal Bank of Canada used under licence by Royal Mutual Funds Inc. RBC and RBC DEALSECURE are trade-marks of Royal Bank of Canada used under licence by RBC Dominion Securities. ACCESS, ADVISOR ACCOUNT, DS, FUND-FACTS and SOVEREIGN INVESTMENT PROGRAM are trade-marks of RBC Dominion Securities. GLOBAL SECURITIES SERVICES is a trade-mark of Royal Bank of Canada used under licence by The Royal Trust Company. VOYAGEUR INSURANCE COMPANY is a trade-mark of Royal Bank of Canada used under licence by Voyageur Insurance Company. SECURITY FIRST NETWORK BANK and THE WORLD'S FIRST INTERNET BANK are trade-marks of Royal Bank of Canada used under licence by Security First Network Bank. ROYAL TRUST, BENCHMARK and MONEYGUIDE are trade-marks of The Royal Trust Company. VISA is a registered trade-mark of Visa International Association used under licence by Royal Bank of Canada. INTERAC is a trade-mark of Interac Inc. used under licence by Royal Bank of Canada. MONDEX is a trade-mark of Mondex International Limited used under licence by Royal Bank of Canada.

The 1998 Ombudsman Annual Report is on the internet: <http://www.royalbank.com/ombudsman>, available at Royal Bank and Royal Trust branches, by telephone: (1-800-ROYAL-4-2), by fax: (416-974-6922) or e-mail: ombudsman@www.royalbank.com.

annual meeting

The Annual Meeting of common shareholders will be held on February 24, 1999 at 10:30 a.m. (Mountain time) in the Macleod Room of the Telus Convention Centre, 120 9th Avenue S.E., Calgary, Alberta.

transfer agent and registrar

main agent

Montreal Trust Company of Canada

Mailing address:

P.O. Box 890, Station "B"
Montreal, Quebec
Canada H3B 3K5

Street address:

1800 McGill College
Avenue, Montreal, Quebec
Canada, H3A 3K9
Tel: (514) 982-7555
Fax: (514) 982-7635
Telex: 055-61286

co-transfer agents (Canada)

Montreal Trust Company of Canada

1465 Brenton St.,
5th Floor, Halifax, N.S.
B3J 3S9

151 Front Street W.,
8th Floor, Toronto, Ont.
M5J 2N1

Western Gas Tower
530 – 8th Avenue S.W.,
6th Floor, Calgary, Alta.
T2P 3S8

Scotia Centre
1783 Hamilton St.,
Suite 660, Regina, Sask.
S4P 2B6

Mezzanine Level
200 Portage Avenue
Winnipeg, Man.
R3C 3X2

510 Burrard Street
Vancouver, B.C.
V6C 3B9

co-transfer agent (U.S.A.)

The Bank of New York
101 Barclay Street
New York, N.Y. 10286

co-transfer agent (United Kingdom)

Computershare Services plc
Securities Services – Registrars
P.O. Box No. 82, Caxton House,
Redcliffe Way, Bristol
BS99 7NH England

stock exchange listings

(Symbol: RY)

common shares listed on:

Canada: Montreal, Toronto, Vancouver,
Winnipeg and Alberta Stock Exchanges

U.S.A.: New York Stock Exchange

Switzerland: Electronic Stock Exchange (EBS)

U.K.: London Stock Exchange

All Preferred shares are listed on the Toronto and Montreal Stock Exchanges.

Certain deposit notes and subordinated debentures are listed on the London and Luxembourg Stock Exchanges and are quoted on Reuters.

valuation day price

For capital gains purposes, the Valuation Day (December 22, 1971) cost base for the bank's common shares, adjusted for prior stock splits, is \$7.38 per share.

shareholder contact

For change of address, shareholders are requested to write to the bank's transfer agent, Montreal Trust Company of Canada, at their mailing address, and for dividend information and estate transfers, shareholders are requested to call the Transfer Agent at (514) 982-7555.

dividend dates for 1999

Subject to approval by the Board of Directors.

	RECORD DATES	PAYMENT DATES
COMMON SHARES AND PREFERRED SHARES SERIES H, I, J, K AND N	<i>Jan. 25 Apr. 23 Jul. 26 Oct. 25</i>	<i>Feb. 24 May 21 Aug. 24 Nov. 24</i>
PREFERRED SHARES SERIES F AND G	<i>Jan. 11 Apr. 12 Jul. 12 Oct. 12</i>	<i>Jan. 29 Apr. 30 Jul. 30 Oct. 29</i>
PREFERRED SHARES SERIES E	<i>Last trading day of each month</i>	<i>12th day of the following month</i>

shareholder information

institutional investor, broker and security analyst contact

Institutional investors, brokers and security analysts requiring financial information should contact the Vice-President, Investor Relations, by writing to 123 Front Street West, 6th Floor, Toronto, Ontario M5J 2M2 or by calling (416) 955-7803 or by fax to (416) 955-7800.

principal addresses:

Montreal street address:

1 Place Ville Marie
Montreal, Quebec, Canada
Tel: (514) 874-2110
Fax: (514) 874-6582
Telex: 055-61086

Montreal mailing address:

Royal Bank of Canada
P.O. Box 6001, Montreal,
Quebec, Canada H3C 3A9

Toronto street address:

Royal Bank of Canada
200 Bay Street
Toronto, Ontario, Canada
Tel: (416) 974-5151
Fax: (416) 955-7800

Toronto mailing address:

P.O. Box 1, Royal Bank
Plaza, Toronto, Ontario,
Canada M5J 2J5

internet:

<http://www.royalbank.com>

La Banque Royale publie son Rapport annuel en français et en anglais

Legal Deposit, 4th quarter 1998
Bibliothèque nationale du Québec

This annual report is printed with vegetable-based ink, on acid-free paper. The entire book is recyclable and the glue in the binding is recoverable.



Please recycle

Other shareholder inquiries may be directed to our Investor Relations Department, by writing to 123 Front Street West, 6th Floor, Toronto, Ontario M5J 2M2 or by calling (416) 955-7806.

Shareholders may have their dividends deposited by electronic funds transfer directly to an account at any financial institution that is a member of the Canadian Payments Association. To arrange for this, please write to Montreal Trust Company of Canada at their mailing address.



ROYAL BANK
OF CANADA